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**Re-examining the Determinants of Small- and Medium-sized Enterprises'
Performance Profitability and Growth: A Case of Ghana**

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May 2011

Abstract

This paper looks at the effects of the six main independent variables (sources of finance, social capital, ownership type, government policies, age and size, and human capital) on the main dependent variable (performance profitability and growth) of small and medium-sized enterprises (SMEs) in Ghana (the context for the project). The thesis is in three (3) parts.

Project One (1) is the thematic literature review of the independent and dependent variables in this study. The review introduces the literature on the characteristics of SMEs in Ghana, and refers to SMEs in the developed world in order to compare the contributions and characteristics of SMEs worldwide. Information about the Ghanaian economy is provided, in order to set the context of the study.

In addition, project one reviews the manufacturing and hospitality sectors and notes reasons for which they are the focus of this project. It ends with a presentation of summary of the review. Within this paper, the terms 'firm', 'organisation' and 'enterprise' are used interchangeably.

Project Two (2) is concerned with the methodology. It is a cross-sectional study and uses interview for data collection. It emphasises the descriptive nature of the work, the suitability and importance of all the necessary processes like snowball technique, sampling methods, and data analysis. Nvivo 8, a computer assisted qualitative data analysis software (CAQDAS) is the primary software that is used for the analysis.

Project Three (3) is the result of the study. It exposes the impermeable wall separating lenders and Government and SMEs as the former lack better knowledge of the latter. The reluctance of SMEs to outsource funding is consistent with the pecking order theory because of the negative consequences of borrowing on their performance profitability and growth. Unclear, unhelpful and unsuitable government policy framework has led to eschewal of such policies by SMEs.

Social and human capitals affect the performance of the SMEs. Good social networks benefits SMEs as they reduce operating costs. Skilled and highly educated employees create positive value in the companies. The study is critical of the style of ownership structure of most SMEs. The "more is better" is very simplistic as age and size had mixed effect on SME performance profitability and growth in the study.

Acknowledgement

I am very grateful to my mentor and supervisor, Professor Michael Blakemore, for his gentlemanly approach throughout the supervision period. He is very empathetic, understanding and always offers me not only unique but helpful pieces of advice. Moreover, he makes sure I am comfortable at all times when I meet him.

The porters and the receptionists at the Business School have played a pivotal role in my stay at Durham. They are always there to talk when I am lonely and bored and need a company. You have made my experience in Durham a memorable one. They are kind beyond measure. I also thank the canteen staff, especially Therese Winter.

Jennifer Anne Bailey, Doctoral Programmes Co-ordinator and unofficially “the queen of water cooler conversations”, at Durham Business School pointed me in the right direction when I needed any kind of assistance. She disagrees with me on everything, but that brings the best out of me. Patricia Linford Taylor, Programmes Assistant, also needs mention for her professional way of handling student-related issues.

One of the best pieces of advice I ever received at the Business School came from Dr Marilyn Fortin, who told me of the importance of a good relationship with my supervisor. Her words still ring a bell in my ears: *“The day you stop getting on with your supervisor is the end of your doctorate.”*

My parents, brothers, sisters and friends are always supportive and have never stopped encouraging me to finish my doctorate. They stand by me in good and bad times and provide for my financial needs. You deserve praise. What a wonderful family! Thank you Emmanuel Hammond Dougan, my year mate, for your encouragement.

Hannah Juby, the proof-reader, improved the writing of the work by severely criticizing it and helping to develop the flow of argument by correcting grammar and misspellings in it.

Finally, my thanksgiving is incomplete and worthless if I forget to emphasise the wonderful opportunities I had from my “grandparents”, John and Kathleen Elizabeth Simon. You make me feel so special and I am forever indebted to you for your unparalleled kindness. You clothed and fed me and provided a roof over my head. Your pieces of advice are unmatched.

Dedication and Declaration

**My “grandparents”, John and Kathleen Elizabeth Simon, of Witton-le-wear,
Bishop Auckland, County Durham, England**

This thesis is my original piece of work and any reference to other works has been duly acknowledged. The author is solely responsible for all the contents of the work. No part of the work should be used for private and commercial purposes without the prior written consent of the author

Table of Contents

Project One

Abstract	2
Chapter One	11
Introduction and Approach to Literature Review	11
1.1 Overview of the Literature Review.....	12
1.2 What is an SME?	12
1.3 Key Economic Contributions of SMEs in Ghana	13
1.4 Literature Findings	14
1.5 Specific Research Issues Relating to Ghana	17
1.6 Focussing on the manufacturing and hospitality sectors in Ghana.....	19
1.6.1 Manufacturing.....	19
1.6.2 Hospitality	21
1.8 Main Research Question.....	23
1.8.1 Research Objectives.....	23
1.8.2 Detailed Research Questions	23
1.9 Framework for the Study	23
1.10 SMEs in Developed Countries.....	25
Chapter Two	27
Profitability and Performance.....	27
2.1 Different Criteria for Measuring Performance.....	30
Chapter Three.....	33
Government Context.....	33
3.1 Regulations and SMEs in Ghana	33
3.1.1 Competitive Rules.....	33
3.1.1.1 Marketing Strategy.....	33
3.1.1.2. Market Analysis.....	34
3.1.1.3. Pricing	35
3.2.0. Transparency.....	37
3.2.1. Branchless Banking Services.....	37
3.3.0. Legislation	38
3.3.1. Structural Adjustment Programme (SAP) in Ghana.....	39
3.3.1.1 Programme of Action to Mitigate the Social Consequences of Adjustment (PAMSCAD).....	41
3.3.2. Enabling SMEs.....	42
3.3.3. Company Registration	42
Chapter Four.....	45
Sources of Finance	45
4.1 Private Sector Finance	46
4.1.1. International Finance Corporation (IFC).....	46

4.1.2. <i>The Banks</i>	47
4.1.3. <i>Venture Capital</i>	49
4.1.4. <i>Grey Sources or the local credit sources</i>	52
4.2 <i>The Third Sector</i>	56
4.2.1 <i>Social Enterprises</i>	58
4.2.1.1 <i>The 31st December Women's Movement</i>	59
4.2.1.2 <i>Catholic Relief Services</i>	61
4.2.2 <i>Local Credit Institutions</i>	61
4.2.2.1. <i>Rural and Community Banks</i>	62
4.2.2.2 <i>Microfinance Institutions (MFIs) in Ghana</i>	63
4.3 <i>Government Sources</i>	64
Chapter Five	65
Social Capital	65
5.1 <i>Networks</i>	65
5.1.1 <i>Family</i>	67
5.1.2 <i>Professional Associations</i>	68
5.2 <i>Trust</i>	69
5.3 <i>Gender Organising Bodies</i>	70
5.3.1. <i>Gender</i>	70
5.3.1.1 <i>Domestic Violence Victim Support Unit (DOVVISU) (formerly The Women and Juvenile Unit-WAJU)</i>	70
Chapter 6	72
Types of SME Ownership	72
6.1. <i>Family</i>	72
6.2. <i>Sole Proprietorship</i>	73
Chapter 7	74
Human Capitals (Education and Qualification)	74
Chapter 8	79
Age and Size of SMEs	79
Chapter 9	83
Thematic Literature Review	85

Project Two

Chapter One	87
Introduction.....	87
<i>1.1 Objectives and Detailed Research Questions of the Study.....</i>	<i>87</i>
<i>1.2 Characteristics of the Study.....</i>	<i>88</i>
<i>1.3 Why qualitative research in this study?</i>	<i>90</i>
Chapter Two	91
Population and the Participants in the Study	91
<i>2.1 Profile of Participants.....</i>	<i>92</i>
<i>2.1.1 Representation.....</i>	<i>93</i>
<i>2.2 Sampling Technique.....</i>	<i>94</i>
<i>2.2.1 Purposive Sampling</i>	<i>94</i>
<i>2.2.2 Judgemental Sampling.....</i>	<i>95</i>
<i>2.2.3 Snowball Technique</i>	<i>95</i>
<i>2.3 Preparation of Contact Person</i>	<i>96</i>
Chapter Three	98
Design of the Study.....	98
<i>3.1 Pre-specification of Data.....</i>	<i>98</i>
<i>3.2 Piloting Study</i>	<i>98</i>
<i>3.3 One-shot or Cross-sectional Study.....</i>	<i>101</i>
<i>3.4 Dealing with Interference during Interviews</i>	<i>101</i>
<i>3.5 Face-to-Face Interview.....</i>	<i>102</i>
<i>3.6 Ethical Considerations and Access to Data held by Interviewer/Researcher.....</i>	<i>103</i>
<i>3.7 Data analysis</i>	<i>104</i>
<i>3.8 Target Audience</i>	<i>105</i>
<i>3.9 Significance of the Research.....</i>	<i>105</i>
<i>3.10 Limitations of the Research.....</i>	<i>106</i>
Chapter Four	108
The Challenges	108
<i>4.1 Hospitality A</i>	<i>109</i>
<i>4.3 Manufacturing A - Soap Making.....</i>	<i>109</i>
<i>4.4 Hospitality C.....</i>	<i>110</i>
<i>4.5 Manufacturing B - Furniture Making</i>	<i>110</i>
<i>4.6 Manufacturing C - Printer/Bookmaker.....</i>	<i>111</i>
<i>4.7 Generic Issues</i>	<i>111</i>
<i>4.8 Mistakes</i>	<i>112</i>
<i>4.9 The Way Forward in Future Interview Processes</i>	<i>113</i>
<i>4.10 Summary</i>	<i>114</i>
Appendices	115

Project Three

Chapter One.....	124
Introduction.....	124
Chapter Two.....	125
Results.....	125
2.1 Social Capital.....	126
2.2.1 Family Connections and SMEs.....	127
2.1.2 Benefits Associated with Social Networks	129
2.1.3 Information Dissemination among SMEs	132
2.1.4 The Interdependence of SMEs in Hospitality and Manufacturing Sectors	132
2.1.5 Corporate Social Responsibility (CSR)	133
2.2 Sources of Finance.....	134
2.2.1 SMEs and Their Start-up Capital.....	134
2.2.2 Start-up Options	135
2.2.3 Sources of Operating Capital for SMEs	136
2.2.4 Financial Challenges Facing SMEs	138
2.2.5 Impact of Loans on SMEs	139
2.2.6 Satisfaction from Borrowers (SMEs) about their Loans from High Street Banks ..	142
2.3 Human Capital.....	143
2.3.1 Who are the most profitable, Professional or Non-professional?	143
2.3.2 Recruitment Styles of SMEs.....	148
2.3.3 Employee Training among SMEs.....	149
2.4 Business Ownership and Model	151
2.4.1 Reasons for Business Start-up.....	151
2.4.2 Ownership Types and Reasons.....	152
2.4.3 Trust and Ownership.....	155
2.4.4 Target Customers	157
2.4.5 Marketing and Promotions.....	158
2.4.5.1 The Orthodox Marketing Styles of SMEs	159
2.4.5.2 The Unorthodox Marketing Styles of SMEs	159
2.4.5.3 SME Perception of Product/Service Promotion	160
2.4.6 Price Setting by SMEs.....	161
2.4.7 Competitors	163
2.5 Government Context	165
2.5.1 Appropriateness of Government Policies	165
2.5.2 Corruption	167
2.5.3 Challenges Facing SMEs in Ghana	167
2.5.4 Data Storage Methods	168
2.5.5 Effects of Government Policies on SMEs	169
2.5.6 Strategies for the Enforcement of Government Policies.....	170
2.6 Age and Size.....	173
2.6.1 Does Size Matter?	173

2.6.2 <i>What Contribution Does the Age of a Firm Make to its Performance Profitability</i>	176
2.6.4 <i>Achievements of SMEs</i>	177
Chapter Three	180
Discussion	180
3.1 Research Questions and Discussion	180
3.2 <i>Social Capital</i>	180
3.3 <i>Sources of Capital</i>	182
3.4 <i>Human Capital</i>	183
3.5 <i>Business Ownership and Model</i>	184
3.6 <i>Government Context</i>	185
3.7 <i>Age and Size</i>	187
Chapter Four	189
Conclusion	189
4.1 <i>Theoretical Concepts</i>	189
4.2 <i>Limitations of the Study</i>	191
4.3 <i>Policy Recommendations</i>	193
4.4 <i>Potential Impact of Suggestions in the Thesis</i>	197
4.5 <i>Further Research</i>	199
4.6 <i>Conclusion</i>	200
References	202

**Re-examining the Determinants of Small- and Medium-sized Enterprises'
Performance Profitability and Growth: A Case of Ghana**

Philip Arthur

**This first project (Literature Review) is submitted as part of the
requirement of the Degree of Doctorate of Business Administration**

May 2011

Chapter One

Introduction and Approach to Literature Review

This paper is concerned with re-examination of determinants that ensure performance profitability and growth of small and medium-sized enterprises in Ghana. It is structured into six main sections: dependent variables (performance profitability and growth), and independent variables (sources of finance, ownership type, government context, age and size, social and human capitals). For the purpose of easy reference, a chapter is dedicated to each independent variable in the study, offering an in-depth investigation of the effects of each independent variable on the performance profitability and growth of SMEs.

To set the context of the study, the researcher begins with some background information about the country and its economy, and examines the contributions of SMEs to the socioeconomic development of Ghana. This could help perspective readers to clearly understand the underpinnings of the objectives of the study.

Ghana recently celebrated democratic rule and stability following the smooth transfer of power from the incumbent to the opposition party. Despite being an exception in a continent often associated with violence and *coups d'état* (Connors 2009), it nevertheless has one of the lowest per capita incomes in the world, with (30%) of the population living on less than \$1.25 a day.

The following quotation from the World Bank Report in 2000 indicates the importance of SMEs in this context: "Smaller businesses are the foundation of the emerging private sector in developing countries and governments should help them to survive and thrive" (The World Bank Report 2000).

In Ghana, the roadside cooked food kiosks and numerous shoe repair shops are a constant reminder of the employment opportunities created by SMEs. Indeed, as Nana Osei Bonsu, Chief Executive Officer of Venture Capital Trust Fund (VCTF), states, "Small and medium enterprises are the bread and butter of the Ghanaian economy" (Asiamah, 2008).

Afranie (2003) argues that small and micro enterprises are the pillar of many economies, and of developing economies particularly. He claims that they could help reduce poverty and lead to sustained growth in emerging economies, because as SMEs grow in size and number they employ more people and improve the country's fiscal situation through

payment of tax on their earnings. In fact, SMEs in Ghana outnumber the large organisations and employ more workers.

The subsequent sections of the chapter look at various definitions and general features of SMEs, objectives, research questions and framework of the study. The next section mentions the sources of literature which the study relies on.

1.1 Overview of the Literature Review

Academic journals are the main source of information for the review, alongside academic textbooks, workshops, conference papers of international standing, government papers, bulletins and reports from international bodies such as the UN, and news articles (both printed and online). Discussion papers and dissertations on small and medium enterprises issues have also been used. The resulting material from literature search is grouped thematically.

1.2 What is an SME?

There is no single accepted definition of an SME (Hussain, 2000: 1). The World Bank defines SMEs based on employee number and capital asset; by this definition, a firm is small if it has 50 employees, a total asset of less than or equal to USD3 million and total sales of no more than USD3 million each year. A medium firm is one that has a total asset of not more than or equal to USD15 million and total sales of no more than USD15 million. The European Union defines a small business as a firm with 50 employees and a medium-sized firm as one with 250 employees (Ganbold, 2008).

Many countries have such different socio-politico-economic features that it is not feasible in any case to tag all SMEs with the same definition. For this reason, SME definition is usually country-specific. In the developed world, the criteria for defining SMEs are different to those of developing economies. A small firm in an advanced economy could be termed as a large firm in a developing economy, and vice versa (Storey 1994; Quartey 2001; Abor 2007). SMEs are enterprises which are micro (1-9 workers), small (10-29 workers) or medium scale (30-140 workers), as indicated in report published by the World Bank on Ghana (Bank 1994). There are alternative definitions of SMEs by different authors which appear below.

According to the Venture Capital Trust Fund Act (2004), an SME is a firm which has not more than 100 employees and a total capital asset base of not more than the equivalent of US\$1 million, excluding land and buildings.

Masakure et al. (2008: 2733) define a micro enterprise as a firm with less than four employees, but point out that these are officially classified together with small businesses. The monetary definition used by Masakure et al. for micro and small businesses is based on the capitalisation of the firm. They state that a firm is classified as micro or small if it has no more than nine employees and if the firm's activities are not worth more than ten million Ghana cedis (USD6968.82 based on exchange rates on 13/02/2010 [www.expendia.co.uk]).

Finally, the Regional Project on Enterprise Development states that an SME is a firm which has less than 100 employees (Abor 2009). This is the working definition of the current paper because it is less confusing, very generic and easier to apply (many SMEs in Ghana fit into this definition) than other definitions. The next section of the chapter discusses the various characteristics of SMEs with special emphasis is on Ghana.

1.3 Key Economic Contributions of SMEs in Ghana

Ghana is a mixed economy whose main sectors are, in order of significance, agriculture, hospitality services and industry/manufacturing (Fening et al., 2008). There are two important points to note regarding SMEs in Ghana (Abor 2007). SMEs contribute about 30-60% of the total GDP (Standard Chartered Bank, Ghana 2008) and are predominantly located in the Greater Accra/Tema Region (Oteng-Gyasi 2009). SMEs form the largest number of companies in Ghana despite low patronage being given to them by policy makers. They create more jobs and employ more people than the larger firms' (Mensah 2004).

Although SMEs have been shown to be more engrossed in survival activities than in expansion projects (Cole 2009), it has become clear that they play an important part in the growth and development of the Ghanaian economy (Kayanula 2000; Mead 1998; Fischer 1995) cited in Tagoe (2005). Indeed, SMEs are a major source of income and employment, leading Mensah (2004) to identify them as key in the economic growth of Ghana (Mensah 2004). In 2001, the SME sector employed 75.5% of the labour force in Ghana and experienced a growth in employment that was 5% greater than that experienced by large-scale enterprises in Ghana (Quartey 2001).

Information from the World Bank (2006) takes into account Ghana's micro enterprises as well as its SMEs, and indicates that MSMEs (micro, small and medium-sized enterprises) employ nearly 70% of the Ghanaian labour force. Their activities include

farming, agribusiness, light manufacturing, arts and crafts, textiles and garments, tourism, financial services, construction, carpentry and more.

According to Frempong (2008), the contributions of SMEs to employment and wealth creation are particularly pronounced in the Ghanaian economy. The industrial and business sectors in Ghana are dominated by SMEs. SMEs contribute almost 40% of Ghana's gross national income (GNI), and are involved in both buying and selling products (Government 2002).

A United Nations Conference on Trade and Development held in New York and Geneva in 2003 revealed the significant contribution made by Ghanaian manufacturing firms to the country's gross domestic product (GDP). The firms contributed 9.3%, 9.0%, 9.0% and 9.2% respectively for the years 1991, 1999, 2000 and 2001 (Nations 2003).

Not only are SMEs contributing significantly to employment generation and economic growth; they are also gaining a more central role in development planning in Ghana (Rogerson 2001). The government has now turned its attention to improving performance of SMEs through capacity development agency like EMPRECTEC.

According to Aryeetey (2001), SMEs are an important channel of innovation and creativity, as well as employment generation. The owners increase their ability to save money as they run their own businesses (Aryeetey 2001). SMEs are not required by law to produce detailed accounts of their activities and it is a way of helping them to save money. Lack of proper law to regulate their activities contributes to poor record keeping of their activities. (Kayanula and Quartey, 2000: 6; Amann, 2006: 238).

SME owners have more direct control over their business operations than the bigger organisations. They take less time to make decisions while larger firms are bogged down with bureaucratic procedures (Abor and Biekpe, 2007: 288). The next section exemplifies the key findings in the review of literature.

1.4 Literature Findings

Some of the main findings the literature search identified have been identified below. They are ordered according to the independent and dependent variables, and the more miscellaneous information is put under general issues.

General

SMEs are the main avenue in Ghana for the creation of ideas and employment (Quartey 2001). They are more flexible than the larger firms, and this increases their potential for innovation (Carroll and Hannan 2002; Amann 2006: 238). They are paramount to the socioeconomic development of the country (Hamilton 1994). They reduce migration of Ghanaian citizens and help to ensure stability within the country (Agency 2009). Nevertheless, they are neglected by the government, and this creates instability within the sector (GNA 2009).

Nonetheless, SMEs are very fragmented in their set-up (Rogerson 2001). SME owners experience “enforced entrepreneurship” (Mead 1998) and their markets are very isolated (Hussain 2007). Laws in Ghana relating to SMEs are out-dated and inconsistent (Mensah 2004; Group 2007; Boateng 2009) and that could contribute to the government’s inability to make laws to contain SME activities. They do not keep adequate accounting and administrative records (Von Pischke 1991; Bank 1994; Overa 2006; Coomson 2006; Fugal 2009). They are lifestyle businesses as they do not follow any guiding principles in their management of records. Approximately 60% of the manufacturing firms in Ghana are situated in the Greater Accra Region (EPA 2002).

Government context

There is no proper legal structure for SMEs in Ghana (Gallardo 2001; Boateng 2009). They do what they deem to be working for their businesses without proper adherence to the official legal framework for larger corporations. No proper legal framework for SMEs (Quartey 2001; Kirkpatrick 2001; Group 2007). There is enough anecdotal evidence of the pricing system of SMEs. They basically haggle with their customers on pricing. Programmes initiated by the government to help SMEs failed and that might have contributed to government’s inability to monitor their activities (Bank 1994; Debrah 2002; Nations 2003). The system for registering businesses in Ghana is out of date and cannot cope with the huge number of applicants who want to register their businesses. For instance, it is a centralised system which makes its operation quite difficult (Akwetey 2009).

Performance profitability and growth

Lack of uniformity among researchers due to variability of measuring methods could be a catalyst for the inability of the researchers to define standard performance (Fening et

al. 2008). Opinions vary on who to involve in measuring performance. For instance, Dadoo (1997) believed in enrolling employees in the assessment of an organisation's performance while other researchers relied on benchmarks which are set by the organisations or independent bodies. Firms are different in their compositions so one measuring criterion for a firm cannot fit other firms (Chrisaman 1998; Stearns 1995; Kayanula and Quartey 2000)

Social capital

SMEs rely on informal networks for advisory services (Overa 2006). Networks improve performance and information dissemination (Barr 2000; Biggs and Shah 2006: 3043-3044). Businesses are usually attached to the family systems in Ghana and this could mean if a business is failing it could have huge toll on the family (Humphrey and Schmitz 1998). Family is the first point of connection and as such family expectations are higher among SMEs (Makatiani 2008; Masakure et al. 2005).

Types of ownership

The majority of SMEs are family-owned (Abor 2007). Few SMEs enter into partnership with others (Biggs 2006). Many SMEs are owned by sole proprietors (Bridge 2003: 211; Mensah 2004). Ownership type impacts profits (Acquaah 2005). Wide range of expertise and huge financial benefits associated with resource pooling could be a tool for good performance.

Sources of finance

SMEs are beset with lack of access to finance (Abor and Biekpe 2009). The main financial institutions treat them as risky ventures. SME owners have poor saving habits (Gartner 1999; Steel et al. 1997). They live by the day and fail to put away money for rainy days. SMEs switch their financial allegiance to informal lenders because of their accessibility and flexibility (Steel et al. 1997; Group 2007). They often lack physical collateral which the formal lenders require when they apply for loans (Bank 1994). The most common sources of finance include personal savings, family and friends (Reed 1994), and SMEs are most likely to take short loans in comparison to larger firms (Biekpe 2009).

Human capital

Most SME entrepreneurs have poor capacity building (Kyokunda 2008) and are short of standard skill levels to run their businesses efficiently (Beaver 2002; Biggs and Shah

2006; Afenyadu 1999; Agency 2009; Laforet 2009; Madilo 2009; Gartner 1999). It is recorded in some works that locally trained Ghanaians have low skill set (Madilo 2009; Nations 2003; 13). Little value is added to manufacturing products compared to developed world (Bigsten 2000) and this could affect the foreign exchange earnings the manufactured products generate. The products are often semi-processed goods which give low earnings for the country. Manufacturing and hospitality industries are pre-occupied by employees with low skills or sometimes (Kerzner and Thamhain 1984; Frazer 2005: 613). Many studies have linked good business performance to good education or qualification (Masakure et al. 2008; Mead 1998; Rogerson 2001; Akoten 2006; Daniels 1998; Ampah 2009)

Age and Size

Younger SMEs are likely to cease operating (Kallerberg 1991; Phillips et al. 1999; Johnson 2007) and have short lifespans in general (Quartey 2001; Headd 2003; Gregory 2005; Johnson 2007). Older SMEs are less likely to fail than younger firms (Frazer 2005). Size and age are linked to performance (Robinson 1994; Orser 2000; Johnson 2007). Age has been treated as a sign of credibility (Abor 2009). The failure rates among SMEs which start on a small scale are very high, according to Frazer (2005). The number of employees in an SME denotes its performance (Gibson 2002). The size of the business could be indicative of its operational performance (Rogerson 2001; Acquah 2005). Age and size have been linked to survivability of businesses. Some authors reiterate that businesses that have been operational for a long time do well (Robinson 1994; Orser 2000). The next section focuses on issues of particular importance to Ghana.

1.5 Specific Research Issues Relating to Ghana

The ability of SMEs to innovate is highlighted in the research of Kamien (1975) and Cohen (1996). They state that the adaptability of SMEs makes them very good at innovative processes, whilst large firms who have the financial resources are nevertheless hampered by their inflexible nature. Likewise, Carroll and Hannan (2000) also claim that large organisations are less flexible than smaller ones.

It is predicted that SMEs in Africa contribute between 30% and 60% of the GDP (Standard Chartered Bank, Ghana 2008), emphasising their importance in the sustainable development of the continent. As stated by Hamilton (1994), SMEs are paramount to the socioeconomic development of developing countries. They have the potential to grow the economy of Ghana since they form the majority of the firms in

most industries (Hamilton 1994). Ghana's economy heavily hinges on the activities of the SMEs. According to Cole (2009), a typical low-income country gains about 47% of its GDP and 29% of its employment from the informal sector, which is dominated by SMEs.

The Standard Chartered Bank of Ghana has forecasted that SMEs will be the driving force behind economic growth in Africa over the next ten years, and as such has created a special devoted department that handles issues involving SMEs. The bank designated November 2008 the month of SMEs in Africa, and launched during that month a range of new innovative financial products to meet the needs of African SMEs (Desk 2009). Despite their significant contribution to the economy of Ghana, SMEs do not get the attention they deserve. In an interview with Ghana News Agency (GNA), Joseph M. Frimpong (The Dean of Kwame Nkrumah University of Science and Technology Business School in Ghana) blamed policy makers in the country for failing to consider the needs of SMEs in key deliberations at parliament (GNA 2009), a neglect which has led to a shortage of capital and the inability of SMEs to compete with larger companies. In addition, he stated that SMEs were often unable to access funds for the development of their businesses, limiting the creation of innovative and quality products. SMEs do not have enough financial capital to set aside part of it for capacity development of staff.

The Volta Region of Ghana in particular has had problems with SMEs. A survey conducted by the Ghana Association of Industries (AGI) showed the region to be neglected by the central Government of Ghana; the region also had a lower level of SME economic activity than other regions. The areas emphasised by the report were manpower development, innovation, security, legal environment, landownership and business ethics. The report showed that the poor performance of SMEs in that region has caused people to migrate to different parts of the country (Agency 2009).

When applying for loans, SMEs in Ghana realise that their performance is measured by the financial institutions in terms of their age, size and tangible assets, which tends to discriminate against new and small firms. As stated by Abor and Biekpe (2009: 94), the banks perceive SMEs as posing a higher risk. However, the longer a firm has been around; the more likely it is to stay in business as it has been able to overcome the initial hurdles that beset all businesses.

Issues of age and size fall in line with the interests of the current paper, which views them as one of the important factors affecting performance profitability and growth.

The challenges facing SMEs in Ghana cannot be solved without the concerted effort of the banks, government and owners of businesses.

The paper researches manufacturing and hospitality sectors of Ghana which have the potential of resuscitating the economy to a good start. The two industries have been chosen because they could generate foreign exchange earnings if they are professionally managed. While export of manufactured goods attracts low taxes, export of raw materials attract premium tax. This could affect the foreign exchange earnings of exports. As more manufacturing companies develop their products to international standards, it attracts more foreign currencies into the economy and this has the positive impact on the balance of trade surplus. It could reflect on the balance of payment surplus of Ghana. The hospitality industry could be one of the potential zones for improving the economy of Ghana. The money that foreign visitors spend on hospitality services often stay in the country as the businesses do not import many foreign products to run their operations. With wonderful touristic attractions, both natural and man-made, Ghana has become one of the destinations for Europeans and North Americans who seek pleasure in the sun. Another important attribute worth mentioning is the stable government and the exploration of oil, which is attracting expatriates into the country.

On a personal level, the researcher's family has a business in the hospitality sector and that has been one of the motivating factors for delving into the operations of the sector. The findings of the study could be replicated in the operations of his family business. Finally, SMEs are the bedrock of the Ghanaian economy so they need the attention of academics in and from Ghana. They could help the country to break the cycle of overdependence on the developed world. The next section deals with the characteristics and contributions of manufacturing and hospitality in Ghana, and also highlights the current status of the selected industries.

1.6 Focussing on the manufacturing and hospitality sectors in Ghana

This is the stage of the review where the emphasis has been on the two sectors that will be studied. The report looks at the sectors and developments that have been going on.

1.6.1 Manufacturing

The manufacturing industry in Ghana is relatively new; manufacturing activities increased following independence from the British colonial rule in 1957. Prior to independence, the main emphasis of British colonial rule was on primary industry

(bauxite), agriculture (coffee) and subsistence farming. Since gaining independence, Ghana's main industries have been mining, light manufacturing, lumbering, aluminium smelting, food processing, cement and small commercial ship building.¹ Oteng-Gyasi (2009) defines manufactured items as "products processed with use of machinery, in large quantities, and in standardised quality".

Nevertheless, as confirmed by the United Nations Conference on Trade and Development, "Ghana is still heavily dependent on exports of primary products" (United Nations Conference on Trade and Development, Nations (2003: 16)). Ghana still exports gold, timber and cocoa in their unrefined state, with gold, cocoa and individual remittances being the major foreign exchange earnings. Agriculture, described by Yusuf (2005: 481) as the mainstay of the Ghanaian economy, forms about 35% of the GDP and employs 55% of the workforce (CIA Factbook 2009).

According to Oteng-Gyasi (2009), manufacturing provides employment for 250,000 people. Of the officially registered firms with the Registrar of Companies (the governmental department in charge of company registration) SMEs are the majority with less than 50 workers employed by a firm. Unfortunately, the manufactured goods are generally not finished goods, but semi-processed goods which are exported to Europe, North America and other countries (Keating 2010).

SMEs employ over 60% the workforce (Agenda 2008; Oteng-Gyasi 2009) and they make up about 96% of firms in Ghana (Agenda 2008). An output figure (mid-sized firms) per employee is about US\$10,789.50 (Kakrah, Nsowah-Nuamah and Awoonor-Williams 2009:12) and the value added per employee is also US\$10,789 (Kakrah, Nsowah-Nuamah and Awoonor-Williams 2009:14). The nature of output is semi-processed (Oteng-Gyasi 2009) and about 25,000 firms are on the register of companies (Oteng-Gyasi 2009).

Ghana has relative advantages in the manufacturing sector because of its cheap labour and abundant mineral resources. However, manufacturing firms in Ghana are very small as compared to the other African countries (Bigsten 2000). Around 50% of products exported to the European Union are partially processed or half-finished; although the revenue from these is lower than the revenue gained from finished products, Ghana stills exports raw materials to the West.

¹ www.bizxchange.in/timesme/faces/jsp/smecomponents/index/article.jsp?article (2009).

Many developing countries have adopted import substitution industrialisation in order to reduce foreign exchange trading losses. Ghana failed drastically in this due to a lack of foreign exchange to pay for the inputs used in the manufacturing sector.

For instance, the contribution of manufactured good to Ghana's GDP were 11.85% in 1962 (Steel 1972) and 19.50% in 1972 (Steel and Webster 1992). There has been improvement on the manufactured goods exported into other countries but the foreign exchange earnings they generate are not encouraging because the goods are semi-processed ones.

Since most of the goods currently manufactured in Ghana are semi-finished goods, the manufacturing sector might do well to focus more on those SMEs which provide value-added finished products.

Frazer (2005) and CSAE (1994) claim that there are four main areas of manufacturing in Ghana, which make up 70% of the employment in the sector. These areas are woodworking, metalworking, food processing, and textiles and garments..

The current paper will focus on how to improve on the performance of small and medium-sized manufacturing firms.

1.6.2 Hospitality

According to a report issued by the United Nations Conference on Trade and Development (2003: 59), tourism is becoming increasingly significant for the Ghanaian economy. It contributes about 4% of the GDP and has been growing by 12% per annum by number of people. In 2006, the hospitality sector contributed about US\$1.2 billion (5% of Ghana's GDP) and created 250,000 jobs in Ghana². In 1999, Gartner (1999) estimated that tourist arrivals in Ghana would hit the 1 million mark by 2010. If tourism continues to grow at such an unprecedented rate, it may soon become the primary foreign exchange earner, overtaking cocoa and gold (Ghana Tourist Board, 2002).

Indeed, Ghana has a comparative advantage in this sector because of its rich archaeological, historical and cultural heritage. It is one of the few countries in the world to have been designated a World Heritage Site by the United Nations Education Scientific and Cultural Organisation (UNESCO), because of its deep historical

² www.theghanajournal.com

involvement with the transatlantic trade. This may encourage Africans in the Diaspora to visit the country.

However, the increasing number of visitors to the country for sightseeing and holidaying has put pressure on the hospitality sector in Ghana. One media report (accra-mail.com 2008) suggests that Ghana's main problem in the tourism and hospitality field is the dearth of international accommodation in the country. Even newly built accommodation has usually no more than one or two stars.

With the discovery of oil in commercial quantity in the country, the low number of quality accommodation facilities in Ghana must be addressed. The oil discovery will entice more expatriates into the country and cause unbearable pressure on visitor accommodation. Most of the few upscale accommodations with world class facilities are located in the capital city, Accra, including La Palm, Golden Tulip, Labadi Beach, Novotel, Fiesta Royal and African Regency Hotel as well as a few others of international standard. The rest of the accommodation facilities have no more than two stars and do not have good conference facilities (accra-mail.com 2008).

Mensah (2006) and Gartner (1999) note that the number of accommodation facilities increased from 350 in 1990 to 1169 in 2002, the majority of which were small and owned by sole proprietors. As we have seen previously, small-scale enterprises are the bulk contributor of gross national product (GNP) in Ghana.

Steel (1992) stated SMEs did better than large firms when the government ushered in an Economic Recovery Programme (ERP). The reason they gave for this was that firms established after 1983, when the recovery programme was initiated, had more entrepreneurial attributes than those operating before ERP. The owners of these firms were better educated and more industrially experienced than their counterpart predecessors, which they claim contributed to their success in the market during the instability that was associated with the ERP.

In sum, as stated by Ansong (2009), tourism and manufacturing have taken the place of primary commodities such as cocoa, bauxite, gold and diamond to become the main GDP-generating endeavours in the country. Therefore the Government of Ghana is currently focussing on these industries as areas for improvement and development. Since these are clearly such important and yet underdeveloped contributors to the Ghanaian economy, the current study will focus on factors that can positively turn

around the performance profitability and growth of SMEs in manufacturing and hospitality in Ghana.

1.8 Main Research Question

To find out what are the conditions that enable SMEs in Ghana to both establish themselves and develop sustainably

1.8.1 Research Objectives

- To understand the specific policies, economic and social criteria which influence SMEs in Ghana
- To highlight the specific issues which influence the ability of SMEs to grow sustainably in Ghana

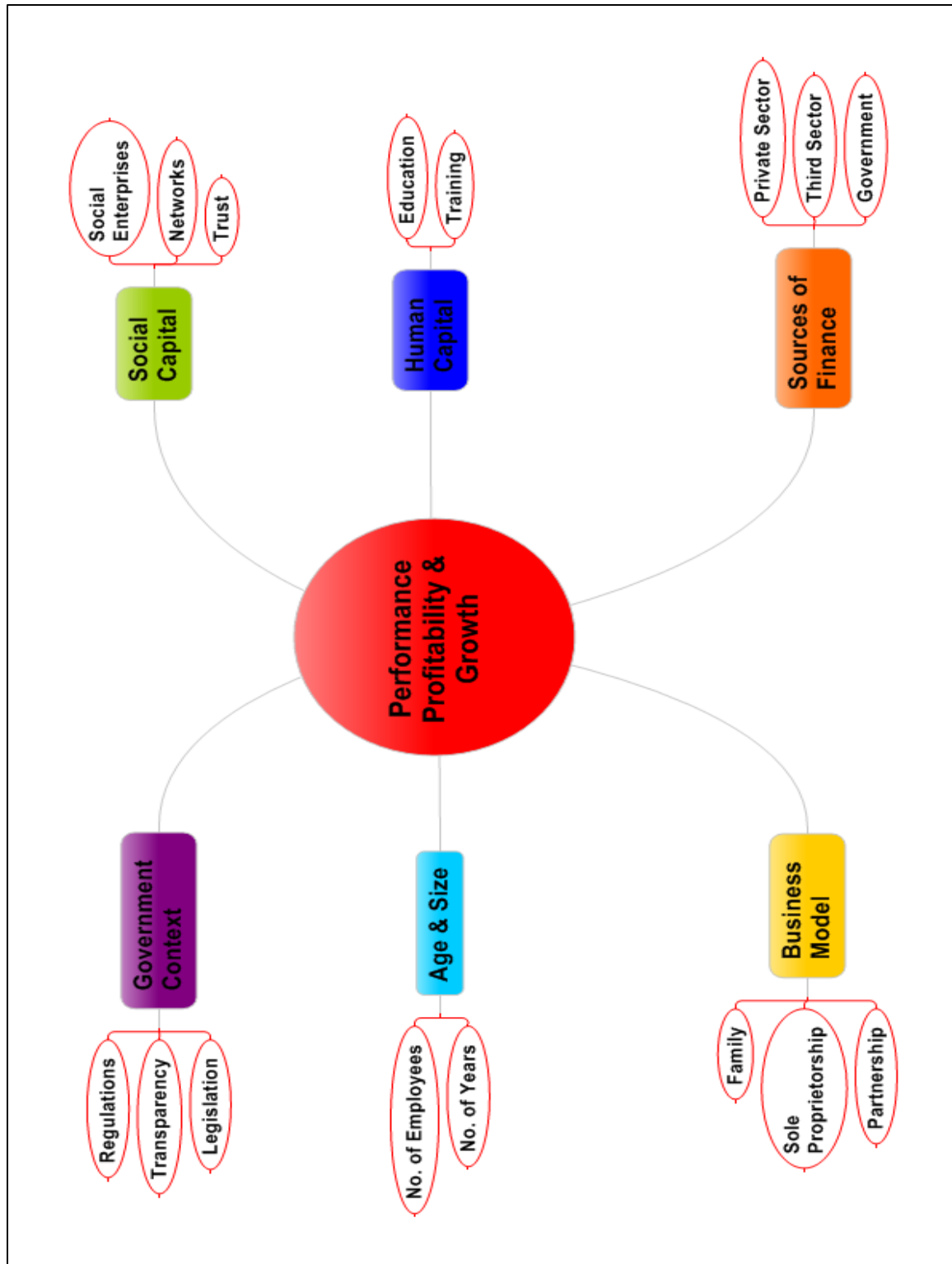
1.8.2 Detailed Research Questions

- Does age impact the performance of an SME?
- What role does size play in the survivability of a firm?
- Does human capital benefit a firm's performance?
- Is ownership type a determining factor for business success?
- How do relationships with other firms affect the profitability of a company?
- What influence do Ghanaian Government policies have on the activities of SMEs?
- To what extent do friends, religious organisations, political groups, professional organisations and social networks contribute to the development of SMEs?

1.9 Framework for the Study

The model depicts all the independent variables and how they influence performance profitability and growth of manufacturing and hospitality SMEs in Ghana. The dependent variable (middle of the diagram) is surrounded by the independent variables. The entire work is dependent on the framework below.

Figure 1 Framework of the Study



1.10 SMEs in Developed Countries

SMEs in the advanced world have similar problems to the ones in Ghana. There is a rich body of literature on the inadequate financing of SMEs in both developed and developing nations by the banking institutions.

Financing may be considered the main challenge for SMEs (Coleman 2000; Van Auken 1996; Gaskill 1993; Welsch 1981; Jones; Wucinich 1979). Small businesses are quite different to large organisations because of decisions they make relating to their capital structure. They over-depend on the private sector and this limits the sort of finance they can obtain from the public. In addition, their reliance on internal sources of finance plays a role in their capital structure decisions. Wetzel (1994) and Sahlman (1990), cited in Gregory (2005), suggest that start-up firms use initial insider financing, trade credit and angel finance. It is also purported that small businesses use different financing options at various stages of their businesses (Berger 1998).

According to financial growth cycle theory for small and medium-sized enterprises, firms change their sources of funding as they grow in size and age and become more able to provide information about their business activities (Gregory et al. 2005: 382). When SMEs first start to operate, they rely solely on their own savings and other internal sources of finance. After this they then move to another stage with different financial needs and sources of finance, such as angel finance and venture capital; and finally, when they mature, they switch to public financing (Wetzel (1994) and Sahlman (1990), cited in Gregory (2005)). This is pecking order theory, which will be used in the current project to assess the applicability of finance theories regarding the UK, the USA and other Western countries to the Ghanaian context.

The pecking order theory gives the study a creditable platform to delve into the sources of start-up finances for small and medium-sized businesses in Ghana. In order to evaluate the applicability of pecking order and growth cycle theories to SMEs in Ghana, the current study will examine the various sources of finance for SMEs and relate these to the number of years for which they have been in operation.

Gregory et al. (2005: 388) suggest that the source of finance depends on the type of organisation the firm belongs to. It is posited that debt in the capital structure of an organisation affects its business liquidity. The larger the debt, the more burden a firm carries because it will pay more money in interest, which has a negative effect on cash flow. In addition, Carter points out that the inability of small firms to raise more money

to support their projects may result in their failure to meet the needs of their customers when demand goes up (Carter 2006).

To conclude this first chapter, SMEs in Ghana are plagued by limited finances; age and size contribute to the way they are likely to get finances from the banks; they are mainly family-run firms and rely on their personal savings; they are not getting the needed help from the government and lenders; failure rates among SMEs are high; there is no formal regulatory framework for SMEs. SME owners and workers have low skill levels. Despite all the challenges their contribution to the growth of the Ghanaian economy is phenomenal. Manufacturing and hospitality sectors are new areas that need more attention from the government.

Having discussed the major background characteristics and contributions of SMEs to the socioeconomic development of Ghana in this chapter, it paves the way for proper understanding of the examination of the independent and dependent variables in the chapters that follow. The next chapter examines how performance is measured by different authors.

Chapter Two

Profitability and Performance

The chapter introduces different methods used by previous authors to measure performance and profitability. Different researchers have not been able to come to conclusion about the best way of measuring performance of firms. The performance and profitability indicators in this study are age and size, government policies, human and social capitals, sources of finance and ownership type. In the study, the Key Performance Indicators (KPI) are the effects of the independent variables on dependent variable. The researcher's definition of profitable performance in this work is progressive positive increase in all the independent variables over the course of the existence of the SMEs in the study.

As stated by Fening et al. (2008), the dependent variables of performance profitability and growth are considerably difficult to measure, since the indicators used differ according to the researcher or industry. As a result, the definition of performance lacks clarity among researchers and academics (Yusuf and Saffu 2005).

In order to ensure the standardisation of performance measurement across similar industries or organisations, the Government of Ghana has set up draft criteria for measuring performance (Dodoo 1997:119). These criteria were initiated in the Civil Service as a benchmark for organisations to use when assessing their performance. The criterion is the use of targets like financial performance, volume of output, quality of service and efficiency.

Interestingly, the works of Aryeetey (2001) and Atieno (2001) have opened the door for further analysis of profitability and performance. They show the way for an element of objectivity in the definition of performance profitability and growth of a firm. They point out that profits can affect firms both positively and negatively, and posit that growth can be positive if profits are used for the expansion of the firm. Other researchers, such as Mead (1998), state that a firm should invest its profits in averting risk by diversifying its activities.

In fact, businesses assess their performance based on both financial and non-financial measures. Financial measures include profit before and after tax, and turnover; non-financial measures include customer satisfaction, customer referral rates, delivery and waiting times, and employee turnover (Chong 2008: 1).

In addition, Dodoo (1997) proposes that in analysing the performance of an organisation, the organisation's employees should be involved, in order to account for varying views. He suggests that ideas should be generated among workers in the lower levels of the organisation, and transmitted up to management.

Hired labour itself is construed to be a sign of positive performance. Masakure (2008) suggests that there is a direct relationship between sales and productivity and the number of employees; the more there is of one, the more there is of the other; and this is then translated into enhanced performance of the business.

Performance may be measured on several scales, however. Empirical studies have suggested that the performance of a firm can be categorised according to the size of the firm, the level of technology use, the age of the firm, characteristics of the sector and the ability of the entrepreneur (Masakure 2008).

Frazer (2005) agrees that exporting firms are more likely to stay in operation, stating that firms which switch from exporting to the local market are more prone to failure. Nevertheless, irrespective of the positive picture painted of exporting SMEs, it would not be effective to use export production as a measurement of performance for all manufacturing firms. Productivity may be deceptive due to company objectives, such as the target market. It is relevant when assessing performance to consider failure rate also as other researchers use as one of the criteria to assess performance. An objective review of the literature indicates that SME failure rate is categorised differently by different authors. Failure measurement criteria include business discontinuance, creditor takeover, and liquidation of the business to prevent further losses.

Failure rate may itself be considered a variable factor, depending on the type of definition being used. The broader the definition of failure, the more likely a firm will be considered to have failed. Data must therefore be analysed with care (Carter and Van Auken 2006: 494). In sum, business performance measurement is fraught with conceptual and methodological underpinnings. Problems in measurement arise because of the variety of measurement indicators employed by researchers. In addition, these indicators are quite difficult to use. There are no universally standardised measurement criteria available for measuring business performance and profitability. Researchers use different criteria for measuring performance of firms (Fredrickson 1984; Greely 1986; Ramanujam 1986 cited in Yusuf, and Safu 2005: 485).

In fact, an enterprise may even shrink in terms of the number of employees and sales volume whilst it is doing well when measured on a different scale. Thus any definition of performance requires explanation as to the process or formula by which the definition was achieved. Owusu (2005) used salary and hiring new employees as criteria for measuring firms' performance. According to Owusu (2005), firms that hired more workers and paid higher salaries were doing well while firms that did not hire and paid less salary were doing badly.

Credit also may have a negative impact on the performance of a firm. Firms often cause themselves problems by consistently relying on loans for their development. Loans from financial institutions come with high interest rates, especially during the currently poor economic environment (Fisman 2004).

Nevertheless, the number of SMEs often grows in a time of economic difficulty, and they often dominate the low-return activities. They also have minimal barriers to entry into their perceived markets. New start-ups are motivated by a search for livelihoods and are often owned by a single proprietor.

Rogerson (2001), however, notes a generally poor performance of SMEs in Africa. He mentions the disintegrated nature of SMEs in Africa, which affects their ability to meet the challenges of their time. SMEs are very often isolated and lacking the support that would come from a network of relationships with other firms. Rogerson (2001) claims that failure rates are high among SMEs operating in markets with low entry barriers, since these tend to be over-traded.

In addition, whilst most enterprise start-ups worldwide are the outcome of supply-push or demand-pull phenomena, the majority of the SMEs in Africa are formed as a result of "enforced entrepreneurship" rather than opportunities in the market. Evidence suggests that these are the least efficient and the least remunerative (Mead 1998).

Little is understood about the factors influencing the duration of firm survival and the reasons for failure. Between 25% and 33% of SME owners leave their business for personal reasons. It is therefore important to dissociate firm closure from business failure.

Closure rates are higher in enterprises that are in the early stages of business operation. There is a high rate of closure in the first two years of operation, but the closure rate reduces after this period due to market experience (Mead 1998).

Macroeconomic conditions also affect the performance of SMEs in Ghana. During the foreign exchange shortages in the 1970s and early 1980s, the balance was tilted to favour businesses in Kumasi (one of the regional capitals). Coincidentally, it is the location of this study. SMEs grew in that region at the expense of the rest of the country (Rogerson 2001).

In Bank's study of SMEs in Ghana, firms which had enjoyed steady employment growth over 5 years were chosen, since these were viewed as showing consistency in their pattern of growth (Bank 1994). Steady, consistent employment growth is often a good indicator of the performance of SMEs in a typical Ghanaian environment.

2.1 Different Criteria for Measuring Performance

Across the literatures, various factors are used to assess the performance of SMEs. The factor(s) used often depend on the author's criteria and what the author wants from the research, and thus there is no standardised system or set of criteria to measure the performance or profitability of a firm. Below we will discuss the criteria that have previously been used to measure SME performance.

The earliest criteria to be used include the goal approach and the system resource approach, which has tended to be the most commonly, used methods. The goal approach in particular is widely used, and is considered ideal for measuring the performance of small and medium-sized enterprises. The goal approach views performance from the point of view of the business owner/manager (Pfeffer 1978), and measures the achievement of organisational objectives. The system resource approach assesses the organisation's ability to gather resources to keep organisational systems (Yuchtman 1967, cited in Haber 2005).

Later schools of thought have critiqued these first two approaches as inappropriate because they do not take into consideration many other factors of an organisation's performance. This has led to the introduction of approaches such as the stakeholder and competitive approaches.

According to Cameron (1986), it is always very difficult to define the performance of a firm. He claims that firms differ in the challenges they experience in their set-up, and may use varying sources of funding; it is therefore inappropriate to use the same method of measurement for all of them. To take into account the initial challenges (uncertainty, instability and lack of resources) encountered by new SMEs (Cameron 1986), authors like Haber (2005) have considered survival itself an aspect of

performance. Kalleberg (1991; cited in Haber 2005), on the other hand, makes a distinction between success and survival, stressing that each is a unique aspect of performance.

The use of only one measuring variable would not be conducive to an accurate assessment of SME performance. Westhead (2001) posits that, due to the difficulty in measuring organisational performance, it would be preferable to use multiple factors in measurement. Birley (1990) states that the use of multiple factors to measure performance eliminates the bias which may result from a single-factor approach.

According to Dadoo (1997), performance can be measured according to the following four indicators: financial performance, volume of output, quality of service and efficiency. These indicators may be assessed independently or analysed together to generate the performance results.

Barney (1997), however, considers the use of a single factor, such as profit, to be adequate for measuring the short-term performance of a firm. He does nevertheless acknowledge that this would not necessarily reflect the general performance of the organisation in the long term.

It is also important to note that one cannot use the same measurement criteria for all firms. For instance, an I.T. firm might have one set of variables for its measurement, whilst agricultural and/or manufacturing firms, who sell different products, would therefore be measured differently. Because of the differences between industries, it is imperative for researchers measuring a firm's performance to consider the particularities of the industry in which the firm operates (Chrisman 1998; Stearns 1995; Bracker 1988; Sandberg 1987; Kayanula and Quartey 2000).

The fact that financial performance is affected by the type of industry the firms operate in has led to the subjectivity of performance measurement (Brush 1992; Sapienza 1988; Chandler 1993a cited in Haber 2005). Using objective financial indicators is the best approach to measuring business performance, but this sort of data is quite difficult to come by as the owners are usually unwilling to release it to the public, seeing the information as confidential.

It has also come to light that successful firms usually have surplus for exports, and this generates additional income for them. Thus in principle, exporters are more likely to stay in business than non-exporters.

As there are not enough empirical studies on the performance of SMEs in Ghana, the objective of the current paper is to uncover those conditions that lead to efficient performance profitability of SMEs. The next chapter looks at the impact of government policies on performance profitability and growth of SMEs in Ghana.

Chapter Three

Government Context

This chapter deals with the policies and regulations initiated by the Government of Ghana to ensure the successful activities of SMEs. It reviews the positive and negative impacts of government policies and regulations on SMEs in Ghana.

3.1 Regulations and SMEs in Ghana

Ghana still relies on the Western legacy bequeathed to it by the British Colonial Rule. But the legal structure that has emerged as a result needs modernisation in order to suit the present economic environmental issues that it is grappling with. Property law, for example, should be updated to take into account modern financial activities that involve collateral requirement (Gallardo 2001).

Boateng (2009) claims Ghana's Companies Act is outdated and needs to be amended to suit current economic atmosphere. In fact, the 1963 Companies Act is still being applied to all companies in Ghana, whilst it recognises only large corporations and not SMEs, which now contribute significantly to the economy. Keating (2010) describes the legal system in Africa as rickety and the business environment as unregulated. Whilst countries like South Africa, Australia and the United States of America update company law to fit with new developments, Ghana still relies on its antiquated policies.

3.1.1 Competitive Rules

There are no official competition regulations for SMEs in Ghana. Anecdotally, SMEs play by their own rules, with little or no regulations from the government. They make their own rules and follow them. The rules keep changing from one SME to another as they are their own architects of competition rules.

3.1.1.1 Marketing Strategy

A lack of structure and regulation almost certainly contributes to the failure of SMEs to engage in adequate long-term business planning. They often lack adequate information about the relevant markets, which can weaken their competition against foreign firms, especially where imported goods are cheaper than local goods. SMEs in Ghana must take advantage of their position in the country in order to improve their sales and growth (Boateng 2009; Abor et al. 2007). Their survival hinges on their knowledge of the market, which should grant them an advantage over their foreign competitors, who have less knowledge about the Ghanaian market.

During periods of economic downturn, extra planning is needed in order to predict the long-term impact on their activities. SMEs need powerful and effective strategies in order to cope with the extra challenges to their everyday activities and to counter the slump in demand for their products. At such a time, SMEs must look for alternative ways to improve their products, expand their markets, train their staff, serve customers and remain technologically up-to-date.

3.1.1.2. Market Analysis

Because of their small size, SMEs often have relatively insignificant assets and little access to finance. They are often unable to afford new equipment in their business area, and tend to use antiquated equipment that renders their products non-standard compared to products from the West. In addition, their products may vary in quality, due in part to the poor regulation of their activities by the government.

It is in fact very difficult for the government to obtain accurate statistics about SMEs, many of whom do not receive any attention at all from the government. Likewise, potential customers may lack awareness of SME services. In Ghana, communication networks are not as developed as they are in the West, and the regulatory bodies are ill-equipped to deal with advertising campaigns. This also creates problems in debt-collecting – it can be very difficult to trace SMEs when they renege on their financial obligations, especially those that have no fixed location, such as market vendors. “Kumasi is ungovernable”, an article published in the Ghanaian Chronicle (2009), refers to the hawking activities of traders and small business owners, which use improvised structures (such as temporary market stalls) for their business, and regularly change their location. Such firms rarely use invoicing processes, unless they are dealing with a customer buying a high volume of goods.

According to Hussain (2007), many of the markets across Africa are isolated and undeveloped. These include food processing, cosmetics, construction, footwear and garment production, sales of farm produce, handicrafts and the service sector (Lyon 2003). SMEs are also subject to long supply chains, with many intermediaries between the manufacturer and the final retailer, resulting in the high cost of their products or services. This long line of intermediaries also tends to blur the distinction between the suppliers and retailers (Mustafa 2005).

Firms in Ghana are labour intensive, with a low number of employees per firm due to the heterogeneous nature of SMEs and their operating activities. Most SMEs in Ghana

have an easy entry level to the market as they require little capital (Reid 1988: 3), relying on human effort over money in order to become established. However, staff have limited formal training, there is a lower level of both skill and investment, and the products they make tend to be simple, requiring little technology.

The markets dominated by SMEs are highly fragmented. Instead of each market being influenced by one particular firm, each SME tend to capture insignificant portions of the market. This fragmentation is generally considered to be a result of the low level at which SMEs enter the production domain. They have small market shares and a low level of influence on the market, and are also scattered geographically.

In addition, SMEs are prone to shocks such as civil strife, random policy changes, and delays in payment, extreme weather conditions and infrastructural breakdown. These problems then transmit additional shocks to the economy. Particularly problematic for SMEs are policy changes, often brought by new governments who do not trust their predecessors. The geographical distance between firms also makes it quite difficult for them to form unions that would enable them to better their working conditions through communication with the Government of Ghana (Biggs 2006).

3.1.1.3. Pricing

Product pricing in Ghana has not been thoroughly researched; most of the studies on product pricing do not delve far enough into the subject. Although local knowledge exists of the pricing policies of entrepreneurs in Ghana, there is a lack of empirical evidence. This is an area that needs much more attention from researchers.

Product price is determined by availability, demand, competition and cost of production. SMEs usually use the cost plus method to price their goods, calculating the cost of production and adding a mark-up in order to gain the predetermined return they have been anticipating.

To deal with these issues, some trade associations help SMEs with pricing. The Cocoa Marketing Board in Ghana, for example, fixes cocoa prices for the farmers every cocoa season. They give the farmers between 15-40% of the world cocoa price and in turn sell the cocoa to the rest of the world at full world market price (see Chard 1994). The

Timber Industry Development Division (TIDD) of the Forestry Commission (FC) also provides a minimum pricing guideline for members³, with its Guiding Selling Price (GSP).

In fact, SMEs often form their own pricing guidelines. In a study of food traders in Ghana, it was noted that they often form trade union-type associations, in order to collaborate in determining the prices of their goods. Traders of many other products have also been forming such unions in Ghana, to help ensure that all members sell their produce at the same price (Lyon 2003). Members gather pricing information by word-of-mouth, from other members of the association, and from friends. Pricing disputes over products may occasionally occur between members.

There are disadvantages to such systems, however. Firstly, prices can be quite variable, since vendors tend to change them in response to haggling on the part of their buyers, meaning that they charge different customers different prices. They also change their prices when they see a competitor or importer to be a threat to their operations. In addition, the price collusion encouraged by the cartel activities of trade associations does not encourage a healthy competitive market. This erodes uniformity and comparison of product prices and makes consumers unable to guesstimate prices of items at the market.

3.1.2.1. Auditing and Reporting

The absence of supportive laws and adequate regulatory framework severely restricts the financing of SMEs in Ghana, and is one of the most difficult challenges to SME investment (Mensah 2004). It makes private and international lenders reluctant to invest in SMEs. Ghanaian company law largely ignores SMEs. Investors and lenders do not have a clue about the appropriate way of dealing with SMEs as there are limited indistinct policies for SMEs by the government.

Also worthy of mention is the general failure of SMEs and other informal businesses in Ghana to report their accounting practices (Coomson 2006). Unfortunately, the poor educational background of most SME owners means that they are less likely, perhaps less able, to make proper records of their accounts (Cook 2000, cited in Tagoe et al., 2005: 332). Furthermore, since SMEs are excluded from the National System of Accounts, they do not necessarily undertake any auditing. As there is no formal procedure or requirement for SMEs in Ghana to follow in terms of accounts reporting,

³ <http://foraq.com/foraq/news> retrieved on 8 February 2009

the synchronisation of the business accounting practices is difficult, if not impossible (Bank 1994).

3.2.0. Transparency

This section talks about the level of openness initiated by the government to encourage the forgotten SMEs to be part of the banking community. The Government of Ghana introduced branchless banking to bring SMEs into the banking world. Formal banking services have eluded SMEs for too long and branchless banking serves as a means to bridge the gap between high street banks and SMEs. It helps the banks to know the sources of money of the SMEs as they visit the SMEs at their workplaces.

3.2.1. Branchless Banking Services

Having recognised the poor accounting practices of many SMEs, the Government of Ghana in 2008 introduced branchless banking. This was set up to cater for the busy small-business owners in the country, such as market vendors, who were too busy to go to the local branches of their prospective banks. The banks were thereby taken to the SMEs, many of whom had previously ignored the formal financial sector.

In the two years since the branchless banking system was set up, SME banking practices have improved. The time-saving nature and convenience of branchless banking appears to motivate SMEs, and as these firms become more familiar with banking activities, the banks gain awareness of their financial standing and are more able to ascertain their suitability to secure loans when the need arises (see NOTICE NO. BG/ GOV/ SEC/ 2008/ 21)⁴. Banks are able, for example, to view deposits made by SMEs as documentary evidence of the status of their business. If a firm is able to keep some money aside in addition to their everyday running capital, then the firm will be seen as having adequate money to run the business, indicating a less risky borrower.

Below are the objectives of branchless banking as set out by the Bank of Ghana:

- Promotion of financial inclusion without compromising legally required accounting practices.
- Ensuring that banking services are used appropriately in customer transactions (reduction of transaction costs)

⁴ <http://www.bog.gov.gh/index1.php?linkid=216&adate=12%2F08%2F2008&archiveid=1205&page=1>

- Ensuring that the activities taking place on the physical premises of the banks are extended to branchless customers. This avoids discrimination on the basis of location of the transaction and reduces the cost incurred by banks when customers use their services elsewhere.
- Applying the same regulations for branchless banking as for branch banking.

The attempt of the Bank of Ghana to connect SMEs to the financial market may be undermined, however, by criminals who use branchless banking as an opportunity to launder money or to support terrorist activities. This occurred in the UK, for example, resulting in the fining of Lloyds Bank by the US Government for accepting deposits from terrorist groups from Asia (Quinn 2009). Care must be taken by financial institutions in order to avoid criminals taking advantage of branchless banking. Banks in Ghana are required to comply with the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) standards sanctioned by the Bank of Ghana through the Financial Action Task Force (FATF). These are:

- Including all deposit-taking financial institutions, to embrace high street banks, rural banks, savings and loans, and microfinance organisations.
- Promulgation of unique identification system for branchless banking customers.
- Using the clearing house (Bank of Ghana interbank transactions activities) as the channel of all transactions.

In sum, branchless banking has revolutionised the banking habits of SMEs in Ghana by breaking down the barriers to accessing financial services. Banking data is now brought to the SMEs, which results in the much improved record-keeping habits of SME owners. Bringing SMEs closer to the mainstream banking sector, branchless banking has also helped the financial institutions to reach out to previously unreached customers. Thus a major advantage of the branchless banking system in Ghana is that banks will now be less able to refuse loans to small business owners.

3.3.0. Legislation

The legal framework of Ghana is quite challenging as there are two sets of laws in operation at the same time; one set for rural populations and another set for those living in cities, as set out in Article 11 (2) of the constitution. The proper legal structure is being practised in the urban areas, whilst in more rural settings it is the traditional laws

that prevail (Group 2007; International Finance Corporation 2007: 4). The traditional laws are undocumented word of mouth facts handed down to the rural folks by their ancestors, and disputes are resolved by arbitration committee chaired by old people in the villages while current and official laws rely on hard documented evidence. This has created a dichotomy in Ghana, leading to misunderstandings and misinterpretations that may be abused by corrupt legal practitioners.

In the 1980s and 1990s, Ghana underwent drastic economic transformation under the initiative of the International Monetary Fund, a subsidiary of the World Bank. It was a general move by the IMF among the least developed countries (LDCs). This resulted in the divestiture of state enterprises that were not doing well despite the money spent by the government to keep them in operation, and the deregulation of internal and external financial liberalisation.

Quartey (2001) and Kirkpatrick (2001) claim that such initiatives allow the government to manipulate the economy in order to achieve its financial or fiscal objectives. This tends to create positive competition and, at the same time, negative competition between firms. Such governmental regulation may also be used as a sanctuary for the badly performing firms in the country by ensuring a level playing field for weaker firms. However, if this is done in an overprotective manner, it destroys competition and leads to a reduction in product quality.

3.3.1. Structural Adjustment Programme (SAP) in Ghana

SAP was imposed on the developing countries that were underperforming by the International Monetary Fund (IMF). The main reason for its introduction in Ghana was to eliminate waste and inefficiency that were happening in state-owned enterprises. State organisations were poorly managed and the government was wasting limited resources to keep them running so in order to curtail those excessive wastes IMF attached strings to loans to developing countries that were experiencing such challenges. The introduction of SAP in Ghana was a laudable step but the conditionality of the loan was not tailored in the interest of country. The implementation was haphazardly done in Ghana because it was modelled on Western countries and unsuitable for Ghanaians. The IMF ignored valuable cultural values of the country and this eventually derailed the good aim of SAP. At the same time, this also opens the doors of the emerging markets to other countries which want to do business with them (Debrah 2002). Such programmes eliminate protectionism, presaging the dismantling of trade blockades in least developing countries by the West.

Structural adjustment programmes were first introduced by the International Monetary Fund (IMF) and the World Bank, in order to engender efficiency and to encourage entrepreneurship among citizens as many of the state enterprises were put on the divestiture list (Debrah, 2002 and Bank, 1994). These programmes usher in the removal of restrictions on interest rates, the elimination of credit ceilings and the introduction of competition into the banking sector. Government subsidies previously enjoyed by certain state firms are removed, as are foreign exchange restrictions. Financial reforms such as these are characterised by the liberalisation of the economy and the privatisation of state-owned enterprises.

In the 1980s, the financial system in Ghana was severely fragmented and hampered by restrictive government-controlled policies that dictated interest rates, controlled commercial banks and allocated credit according to sector (Bank 1994: 1). There was a general lack of competition among the commercial banks as they all followed the dictates of the government. As a result, Ghana undertook in 1983 an SAP (also called an Economic Recovery Programme or ERP). This had a significant impact on the performance of small manufacturing firms, with many firms responding to the situation by varying their products, becoming niche-oriented and increasingly competitive (Steel 1992). According to the United Nations Conference on Trade and Development (2003: 20), the ERP was a market-friendly opportunity for the revival of private investment in Ghana. It faced industrial actions from the employees of the affected companies. The state gave it a serious consideration by educating the affected about the long term benefits of such programmes (Bennell 1997). The government did not have a clear exit strategy for the workers who were losing their jobs, corrupt state officials undervalued the affected organisations and sold them to their cronies.

Another problem with the ERP in Ghana was that it did not take into account imbalances of power and structure, including gender, poor infrastructural facilities and high illiteracy rates, which are particularly pertinent issues in the rural areas of Ghana. Rural inhabitants suffered as a result of the programme (Bank 1994). It rather made the rural folks poorer because of scarce money in the system as the government controlled the inflationary activities in the country. Demand for their goods were low because there was less money circulating in the economy.

The effects of Structural Adjustment Programmes on domestic enterprises in Ghana are currently being investigated. Since the implementation of the ERP by the Government of Ghana there has been pressure on local firms who must now compete with foreign

counterparts whose resources and technological know-how enable them to produce goods of higher quality with greater ease. Furthermore, the continual fall of the local currency against the world's major currencies (including the US dollar, the Euro- the defunct currencies of the current Eurozone members- and the British pound) increase the cost of raw materials and equipment, which in turn increases the cost of the products manufactured. As a result, a locally-made item, although it may be of poorer quality, may also be more expensive than an imported one, and traders therefore often switch to imported products (Owusu-Mensah 2009). These issues have had a negative effect on the performance of the manufacturing firms in the country.

3.3.1.1 Programme of Action to Mitigate the Social Consequences of Adjustment (PAMSCAD)

PAMSCAD was invented when the Government of Ghana and the international community realised the social cost of the structural adjustment programme (Gayi 2006: 558). Ghana was the first country in the developing world to undertake such an initiative, which it discussed with the World Bank at a Special Donors' meeting in 1986 (Sowa 2002; Townsend and Gordon 2002: 226).

The Government of Ghana presented PAMSCAD to the Consultative Group Meeting in Paris in May, 1987 (Gayi 2006: 558; Townsend and Gordon 2002). The programme was agreed on and formulated by a multiagency-led team by the World Bank, and has since become the model for World Bank-sponsored Social Funds.

PAMSCAD received a total of US\$84 million (excluding contributions from local cost recovery, and other contributions totalling US\$5.8 million), to be spent over a two-year period between 1988 and 1999 (Gayi 2006: 559). The amount formed about 6% of the annual donor support for Ghana's SAP.

The priority areas of the programme were:

- Community initiatives
- Employment generation- take steps to help the redeployed, provide the basic needs of vulnerable groups, and give the poor education

Gayi (2006) claimed that funds were in fact disbursed to the non-poor people in the community and that PAMSCAD did not therefore fulfil its objective of reducing poverty. Unfortunately, after the completion of the implementation stage, only 8 projects could be deemed successful. The programme organisers misplaced their priorities by diverting

resources from the much needed activities to their cronies who are financially endowed. This defeated the aim of the programme and hastened its failure or collapse. Eventually, the rural poor who should have fully benefitted from it gained little from the programme. The PAMSCAD secretariat closed after the Structural Adjustment Programme ended (Gayi 2006).

3.3.2. Enabling SMEs

SMEs cannot compete favourably with well-established large businesses. In formulating regulations for the SMEs, regulators (often government agencies) must bear in mind that new policies will either stifle or promote the growth of SMEs through the challenges facing them either from large organisations or from outside competitors. Smaller firms are more vulnerable to negative regulatory policies than well-established larger firms who have the resources to meet the uncertain economic climate.

In initiating any new regulation, it is important that its impact on SMEs is considered in a thorough manner. SMEs are already faced with such challenges as shortages of credit facilities, manpower skills and technical and raw materials (Aryeetey 1994; Kayanula 2000). Their relative lack of resources means that they are often operating in reaction to their environment. They may feel that they have no control over their circumstances, and will be likely therefore to make spur-of-the-moment decisions rather than to undertake thorough business planning.

In 1990, the Government of Ghana introduced a credit ceiling on bank lending to firms in Ghana. This was a major obstacle to commercial banks, many of whom decided to avoid the regulation by issuing loans in off-balance sheet activities. Thus in 1989, the Bank of Ghana intervened in order to stop untoward lending operations (Brownbridge 1995). The Bank of Ghana mandated all banks to maintain about 50% of their deposits mobilised from customers; 20% of bank specific credit on bank deposits; 20% of the ceiling was to be based on the amount of new loans recovered in each quarter; 20% of the total domestic credit to be created etc. (Dordunoo and Donkor 1998)

3.3.3. Company Registration

The company seal was enacted in 1963, with Act 179 of the Companies Code (ghana-net.com, accessed on 13/02/2010). The abolition of both the company seal and the cumbersome process of registering a business has facilitated and increased business

registration in Ghana⁵. Unnecessary procedures have been reduced drastically, thereby making it an investment friendly country.

According to Gibson (1994), small business organisations in Ghana are registered as cooperatives or charitable organisations with limited guarantees under the Department of Social Welfare. They are often treated as part-business, part-social and part-welfare. This difficulty in defining them makes it quite daunting for governments to fit them into a particular legal framework of governance.

Furthermore, SMEs in Ghana are registered manually, which causes a delay in processing their documents. SMEs also argue that the fee charged for registration is too high. Another issue is the centralisation of the company registration process, which forces SMEs to travel to the national capital, Accra, in order to register. The cost in time and money is a significant obstacle to new firms, who must then wait for approval from the government before starting business. To improve the efficiency of the registration process, Akwetey (2009) suggests de-centralising the registration of SMEs to either the district or regional capitals. This would greatly facilitate SME registration, as well as shortening the process to enable them to start business earlier.

One strong argument against the current registration system is that the registration officials are usually unable to verify the information provided on the registration forms. Moreover, the government does not carry out any further checks at all on the activities of the SMEs. If the registration process were to be decentralised, officials would be able to confirm information provided by SMEs by doing a quick stop-check of the facilities they want to register. This ensures that fraudulent businesses do not appear on the official registration documents of the state (Agency 2009; FT 2009).

In summary, in addition to the financial constraints faced by small and medium-sized enterprises in Ghana, the cumbersome nature of doing business in the country limits the entrepreneurial potential of the citizens. Lengthy and complicated business registration, incorporation and licensing practices tend to have a negative impact on firms' operational activities (International Financial Corporation 2007). The *Doing Business List* (that highlights easiness which investors can do business in another) re-emphasises the poor position of Ghana in business: of the 178 countries listed, Ghana is 145th, far behind other African countries, including Nigeria, Tanzania and Uganda, which rank

⁵ tradeafrica.blogspot.com/2008/09/ghana-senegal-go-places-to-do-html accessed on 12th January 2009

107th, 118th and 127th respectively. It takes much longer for investors to get the right documentation to start a business in Ghana (Group 2007).

One issue that we have not yet discussed is the possibility of a moral hazard issue arising if the registrant uses the same registration documents to conduct clandestine activities. In this era of the global War on Terror, thorough checks must be conducted in order to detect at the earliest opportunity any underhand dealings aiming to satisfy personal interest at the expense of the entire nation. There has also been a recent increase in the number of drug cases in Ghana, making it imperative that the government thoroughly investigate the activities of registration applicants (Graphic, 2009 and Ross, 2008).

The government has not done much to bring about a clear and precise regulatory framework for SMEs. There is lack of policies which create enabling environment for the SMEs and this is one of main problems hindering their development. There is inadequate enforcement of the policies of the government and this negates the good it offers SMEs in Ghana. According to Hart (1988) and North (1995), the Government of Ghana provides little legal protection for citizens and for contemporary business activities. The literature search has depicted how the good effort of the government has failed to enable SMEs to perform well.

To ascertain how external forces- factors they have no control over- affect the business activities of SMEs, the government policies were incorporated into the study as one of the variables. This approach, in turn, gives the study a balanced perspective as it portrays what actually exists in the real world. The next chapter encapsulates the sources of start-up and operating capitals of SMEs in Ghana.

Chapter Four

Sources of Finance

Credit acquisition is paramount to the success of an SME. It facilitates the start-up of a new business, and enables investment in premises, equipment, stock, staff and marketing. Yet accessing credit can be difficult. As stated by Mensah (2004: 2), Ghana's financial sector is "relatively undeveloped", with "low levels of intermediation" and a "lack of institutional and legal structures that facilitate the management of SME lending risk" (Mensah 2004: 2). The chapter opens with different capital markets; looks at various lending bodies in Ghana; and also covers the sources of finances of SMEs.

Ghana operates a three-tier financial system, as encouraged by the World Bank. The three tiers involve formal financial institutions, semi-formal financial institutions and informal financial institutions. The formal institutions are incorporated under the company code of 1963 and licensed to provide financial services by the Bank of Ghana under either the Banking Law 1989 or the Financial Institutions (Non-Banking) Law 1993 (Amann 2006; Aryeetey et al. 2001; Aryeetey 1994; Atieno 2001).

One of the difficulties facing SMEs is access to and cost of credit and this is one of the greatest constraints on SME activities. According to the International Finance Corporation, Ghana ranks 117th of the 175 countries in the World Bank *Doing Business* league table when it comes to accessing credit. Lack of access to credit is caused by the institution of stringent policies and practices that disrupt the attempts of SMEs to acquire credit from financial institutions, especially the banks (Bank 1994).

Credit provision by financial and quasi-financial institutions is based on information asymmetry on both sides, which is resolved by a demonstration of creditworthiness and project viability. The financing of SMEs must match their operational needs, but investors or lenders will also consider the risk perception of the firms. For investors, it is important to avoid loss, and they will therefore put their money into businesses that they see as good ventures.

The quasi-financial institutions included money lenders, savings collectors and ROSCAs (Rotating savings and credit associations), but each group operated in isolation (Bank 1994). The informal lenders have been providing money to their members for many years and have quite flexible mode of lending. For this reason, borrowers seem to gravitate towards them. They have helped reduce the credit problems of SMEs in

situations where SMEs cannot get credit from the formal lending institutions like the banks.⁶

As mentioned in Chapter 3 (Auditing and Reporting), SMEs often have poor accounting practices. As a result, the transaction cost of providing loans to SMEs becomes huge and also increases the risk. It costs banks more to lend money to SMEs because they have to spend more time on administrative duties and also, they lack evidence to show or proof their creditworthiness.

4.1 Private Sector Finance

The private sector comprises banks, venture capitalists and other international public and private partnership organisations, including the International Finance Corporation (IFC), the private sector arm of the World Bank Group.

4.1.1. International Finance Corporation (IFC)

The IFC plays the role of facilitator as well as provider of loans to small and medium-sized enterprises in the developing world and especially in Sub-Saharan Africa. It boosts private sector investment in order to reduce poverty and improve the quality of life in Africa. Furthermore, it ensures that its SMEs receive the business advisory services they need to make their investments a success.

Some of the key roles of the IFC are:

- Financing investments with its own mobilised capital and resources
- Long-term financing of projects at the current market price
- Mobilisation of capital from the 176 members of the corporation
- Sharing the risk associated with certain projects with members or donor organisations, whilst leaving the project management itself to the project developers

⁶ Savings collectors deal mainly with small businesses and market women (women form the bulk of the populace in the market), who make daily deposits to the collectors and then withdraw the whole amount at the end of the month (minus the pre-agreed collector's fee).

- Focussing on the profitability of the investment, charging commercial interest rates

Investors and lenders provide US\$5 for every US\$1 contributed by the IFC. Government guarantee is not acceptable for IFC

Ghana became a member of the IFC in 1958, and has since enjoyed benefits such as education support, financial sector leasing and housing finance. So far, the country has benefited from US\$162 million of investments from the IFC, which covered 13 projects. In total, there are currently 43 IFC-sponsored projects in Ghana. IFC provided US\$636 million and US\$272 million came from syndicated loans for the projects.

The IFC has contributed to the provision of infrastructure, strengthening the domestic financial sector, creating and broadening opportunities for SMEs through the local financial institutions, facilitating the development of non-traditional exports and enabling a congenial business environment by providing advice and financial support for SMEs⁷.

4.1.2. The Banks

The banks ultimately focus on the risk perception associated with the loans they make to the SMEs, and deem collateral the only way to reduce this risk. SMEs often lack collateral, however, and even if they have it, the value is likely not to commensurate the loan they are asking for.

The inability of SMEs to gain credit access to the mainstream banks in Ghana is for many of them a result of their poor accounting, record-keeping and managerial abilities. Since the banks must themselves collect and collate the necessary data on SMEs, this raises the transaction costs for the SMEs. In addition, if a firm lacks information, banks will treat it as a high-risk borrower, which will affect the interest rate on any loans granted.

Some authors claim that banks relying solely on “hard” information to justify loans (such as audited tax accounts and tax returns, bank statements and other proprietary documents) discriminates against SMEs because of their inability to produce such

⁷[www.ifc.org/ifcext/Africa.nsf/AttachmentByTitle/Ghana_factsheets_Jan07/\\$FILE/Ghana_factsheets_Jan07.pdf](http://www.ifc.org/ifcext/Africa.nsf/AttachmentByTitle/Ghana_factsheets_Jan07/$FILE/Ghana_factsheets_Jan07.pdf): accessed on 14 November 2009.

information. Scott (2006: 544) suggests that it would be fairer to SMEs if lenders took into consideration “soft” information, such as the character of the borrower, using character references from independent third parties who have known the borrower for a number of years.

Overa (2006) purported that it was quite difficult to put a correct figure on the incomes of businesses, especially SMEs, in Ghana because of the seasonality of some businesses. Variations in income are significant and occur daily or seasonally. Another key point mentioned is the intentionality of firm owners to hide their true income in order to avoid paying tax on their business activities.

Loan administration consists of costs of screening applicants, monitoring the borrowers and enforcing the contract if a borrower defaults. The work of Masakure et al. (2008) underscores the potential negative effects of bank loans on SME performance. They demonstrate that bank loans may be detrimental to the performance of an already failing firm due to their high interest rates, averaging about 37%. In addition, banks transfer their transaction costs to the borrowers, making the loan even more expensive.

The practices used by banks to lend credit to borrowers are very expensive and are therefore suited to large loans. They include credit checks to gain personal and organisational information related to borrowers’ credit history, as well as business and project appraisals in order to ascertain business prospects. Banks will also look for formal collateral (Rhyne and Otero 1992: 1562). This has created an imbalance in the borrower-lender relationship. SME borrowers are often poor and have concentrated on saving money rather than on securing loans to further their businesses. They are not likely to get loans from the banks because they do not keep good record of their activities which the banks will use to make decision about their loan application.

Project appraisal is very expensive and SMEs usually fail to meet the criteria of the banks. They are unable to provide collateral which equals the value of the loan they are seeking. Although banks may not directly refuse to give loans to SMEs, their requirements often exclude such firms. It is in this light that Rhyne and Otero (1992: 1563) propose that banks streamline their activities to encompass SMEs borrowing needs.

They suggest, for instance, that transaction costs could be reduced by introducing group borrowing, to spread the cost across group members. They believe that the shared

liability of group members would improve repayment rates, since groups would likely eliminate loan defaulters that would otherwise affect their future credit rating.

Cole (2009) argues that the best efforts of the Ghanaian entrepreneurs will not yield any fruit if the banks and financial institutions do not grant them adequate seed capital and operating capital.

4.1.3. Venture Capital

In 2004 the Venture Capital Trust Fund Act (680) was initiated in Ghana, in order to promote the SME sector, to create jobs and to eliminate poverty, as well as to create funds for potential venture capitalists. The resulting fund, the Venture Capitalist Trust Fund (VCTF), became fully operational in 2006. It is funded by 25% of the National Reconstruction Levy. The fund is a combination of private and public partnership (PPP), which has enabled it to raise its capital level to approximately 56.9 million Ghana cedis.

The fund is available to investees through intermediary organisations called Venture Capital Finance Companies. The Venture Capital Finance Companies are tax exempt and their sole priority is investing in SMEs (Asiamah 2008). There are four venture capitalists currently operating in Ghana: Activity Venture Finance Company, Bedrock Venture Capital Finance Company, Gold Coast Securities Company and Fidelity Fund. They all operate in Accra, the national capital city of Ghana (Asiamah 2008). In addition to the financial resources they provide, they also engage in human capital development.

Abor and Adjasi (2007) purported that the activities of SMEs in Ghana form about 90% of all economic activities in the country. For this reason it is imperative that the government agencies focus their attention on SMEs, in order to benefit from them.

According to Nana Osei Bonsu, chief executive of the Venture Capital Trust Fund (VCTF), the fund's priority areas are tourism, pharmaceuticals, agriculture and agro-processing, information and communication technologies (ICT), and energy (see Selby 2008 and Ashong 2009). These priority sectors receive more funding than the non-priority ones, which is or will be reviewed as and when necessary in accordance with the changing economic and environmental needs in the country.

The Venture Capital Fund (VCF) provides credit and equity financing in addition to cash to support SMEs. To qualify for the fund, firms should have less than US\$1 million in financial capital, excluding land and buildings. They may be seeking funds for the start-up of a new business or for the maintenance of an already running business, but they

must be privately owned. The SME owner/representative must be able to bear 50% of the funding requirement, and the venture capitalist is to have 50% of the ownership of the business. Firms must provide a business plan, three years' audited accounts, a tax clearance certificate and any other documentation necessary to support their loan application. The venture capitalist may ask for incorporation papers, but this is not a priority if an SME cannot provide any.

Unfortunately, SMEs restrict their own access to venture capitalist funds by their unwillingness either to divulge business information to the venture capitalists or to give up a part of their ownership (Tagoe 2005). The venture capitalist, in order to avoid moral hazard, will get involved in the running of the organisation in which a financial investment has been placed, but the possibility for this is limited if the SME owner refuses to share business information. Although loans from the VCTF are free and come with free managerial expertise from the venture capitalists, SME owners often choose loans with high interest rates over the VCTF (Tagoe 2005: 335).

A market economy benefits from healthy competition, which promotes efficiency and eliminates economic waste. Sometimes, in order to ensure better competition, a government will bring in new regulations that encourage such competition. But care must be taken to ensure that, while promoting the interests of the nation, companies are not harmed that would otherwise bring benefits to the economy.

This trade liberalisation policy, however, led to the closure of many small and medium-sized companies. Already struggling with low access to credit facilities, the SMEs in Ghana were ill-equipped to cope with the effects of trade liberalisation. They could not compete with the mass production of their Western counterparts. Moreover, the quality of local products did not match that of foreign products, causing consumers to switch to the foreign ones.

Cook (2000) stresses that improvement in the managerial skills of SME owners is eclipsed by an inability to raise enough capital to meet market demand and expand production. When opportunities for growth are realised and the SMEs go to the banks for credit, they are usually given a sum below their needs, if they are lucky enough to secure a loan at all. So in order to get the loan amount they need, they open many accounts with different banks and borrow from all of them. Whilst credit reference agencies exist in the developed world, there is no such system in Ghana that would allow banks to keep track of a client's borrowings from other banks.

The loan portfolio of the banks in Ghana is dominated by large firms. Large firms have low screening and monitoring costs, are able to provide requisite information about their present and future operational plans, and are capable of providing collateral. The banks can confiscate physical assets of the large organisations if they fail to repay their loans through the courts of law.

For the SMEs in Ghana, the microfinance institutions are more approachable. Yet these also charge high interest rates, and have low to zero levels of savings and capital formation (Gartner 1999). Abor (2007) claims dramatic emphasis has been laid on the financing of SMEs but there is still a gap between the activities of the financial institutions (the lenders) and those of the SME borrowers. Previous research on the matter has concluded that lenders are often unable to decipher what the borrowers' needs are, and that borrowers often fail to meet the requirements of the lenders (Gartner 1999).

Abor and Biekpe (2009) reiterate the role of finance in the development of SMEs in Ghana. In their work on Ghana they blame the limited access to finance on the poor and disproportionate development of the Ghanaian financial market. The large firms are being favoured by the banks while the small firms are ignored. The big firms have more banking interactions with the banks. The banking system in Ghana has not been fully embraced by SMEs because the large commercial banks treat them with disdain.

The Board of Directors of the African Development Bank (AfDB) have attempted to sustain the SMEs in Ghana by providing loans specifically meant for the non-traditional export products of SMEs. In 2008, African Development Bank (AfDB) and Japan Official Development Assistance provided US\$24 million for export-oriented SMEs in Ghana in addition to a "technical assistance" grant of US\$1 million from the Fund for African Private Sector Assistance (FAPA). This grant aimed to build capacity among the owners of SMEs so that they would be able to access much needed loans (Kyokunda 2008).

The FAPA loan has boosted export by about US\$339 million, which has then increased proceeds and improved the balance of payments. The loan went to 200 SMEs and 10 SME organisations. AfDB and FAPA projected in 2008 that it would create at least 500 permanent jobs (Kyokunda 2008).

One key problem the SMEs in Ghana are facing is unfair treatment by the banks. The banks can make more money from government bonds or treasury bills (t-bills) than from investing in SMEs. The former are less risky than the latter and come with lower

administrative and transaction costs. For instance, the interest rate on the 91-day Treasury bill, which in 1996 was 46%, dropped to 35% in 2002 and went down further to 8.7% in 2006. Upon realising the persistent decline of the treasury bill interest rate to 8.7%, the banks started switching to alternative sources of income. The banks only considered the SME sector after the fall in interest rate of Treasury bills.

As highlighted by the Ghanaian Chronicle (2006), the commercial banks are solely interested in the profit-making aspect of their business activities, at the expense of the depositors, whose money they use for their income-generating activities.

Even though the banks have been criticised for overcollateralization of loans, there are few alternative compensatory measures available to them should their debtors default on repayments. As is often the case in the developing world, the majority of SME owners in Ghana do not have any physical property that the banks can hold onto as a lien if there is repayment default. Instead, the banks use the issue of collateral to enforce their credit rating criteria for SMEs. For this reason, SMEs prefer informal borrowing because of the soft lending requirements, the price of credit and the flexibility of repayment (Group 2007).

In sum, as Tagoe (2005) claims, SMEs are less able to raise private equity and tend to over-depend on the banks. In addition, their poor record-keeping skills require the banks to invest more resources in monitoring and screening their activities. The risk of lending to SMEs deters banks, whilst the high transaction costs and lack of collateral limit SME access to loans. Any loan they do procure is likely to be short-term only and to have a high interest rate.

4.1.4. Grey Sources or the local credit sources

The Poverty Alleviation Fund and the Microfinance and Small Loan Centre (MASLOC), introduced by the state in 2006 with the aim of increasing SME access to finance, seem to have failed to reach many of the SMEs, who still complain about lack of finance as one of their major challenges (Akwetey 2009).

As previously mentioned, SME finance sources are usually friends, relatives and personal savings. SMEs also use apprenticeship as a source of finance (Masakure et al. 2008). They use apprentices to work in their businesses after they have qualified as tradesmen before they finally leave. In Ghana, apprentices pay money to their masters or the organisations they learn the trade from before they are deemed as qualified to practice.

This is an alternative means of raising money by the SMEs. This method is more customary as an appreciation for getting a skill from a master craftsman.

The Government of Ghana in collaboration with the Italian Government agreed to offer financial assistance to the needy SMEs in Ghana. Since the agreement was signed twenty-nine SMEs from the agro-business, construction and hospitality industries received between 97,000 and 450,000 Euros to further enhance the development of their activities (PANAPRESS 2009). The Government of Italy gave Ghana a soft loan of 20 million Euros and a grant of 2 million Euros to develop the SMEs in the country, in addition to a previous loan of 22 million Euros. There had been an earlier commitment of eleven million Euros in 2003 before the current 22 million Euros.

Aryeetey et al. (2000) stated that the banks should review their collateral requirements, which have had a very negative impact on the financial capabilities of SMEs. Demands for audited accounts and legally documented collateral property have made it even more difficult for SMEs to access credit in order to start up, maintain or diversify their businesses. Likewise, Bank (1994) reiterates the need to shift the focus from physical collateral to other means, such as character references from borrowers applying for loans, rather than collateral requirements such as buildings or equipment. Aryeetey et al. (2000) suggest that, since SMEs are essential to the Ghanaian economy, if the banks do not adjust their loan requirements to include them, the attempts of the Government of Ghana to turn the economy to a middle income nation by 2020 will be rendered futile.

Fugal (2009) accuses the SMEs as the cause of their problems. He insists that it is their lack of good record keeping, marketing strategies and financial management that causes the demise of many SMEs in Ghana. He does, however, caution the financial institutions to be wary of the interest they charge on soft loans to SMEs, because they are not able to make consistent repayments.

Often, SME owners find that informal financial institutions are better able to provide their needs. An informal financial institution is any financial organisation that engages in financial activities that are not governed or regulated by bank supervisory authorities (Steel et al. 1997). The dealings of the informal financial institutions with SMEs are more streamlined to suit their needs, requiring minimal official documentation, and also taking into account undocumented factors obtained through informal conversations.

Informal financial organisations like microfinance organisations and savings and loans introduce savings and loans activities to the majority of the people in Africa, and without them a vast majority of SME market would not have access to the financial market. Thus informal institutions are helping to bridge the gap between the banking elite and the bankless rural and urban poor, who usually operate in the informal sectors of the economies (Steel 1997). Because the informal financial institutions perform activities beyond the scope of the formal financial institutions, both kinds of institution are able to co-exist.

There is, however, according to Seibel (1987) and Nissanke (1992), no real connection between the formal and informal financial institutions. They note that African financial systems are highly fragmented. The line between the formal and informal lending activities is very blur. They perform similar activities to SMEs. They jostle for places in the lending activities among the SMEs.

In 2006, the World Bank approved US\$45 million to support the implementation of Ghana's micro, small and medium enterprise (MSME) Project to encourage entrepreneurial activities at all levels by facilitating growth, generating employment and reducing poverty (Bank 2006).

"Growth and employment in Ghana are directly linked to the growth of MSMEs. I hope that with this Project, Ghanaian banks will be more able to link up to Ghanaian businesses for more investment and private sector jobs. For the World Bank Group, this is the future."

Mats Karlsson, The World Bank's Country Director for Ghana (Bank 2006)

Asymmetric or imperfect financial information about clients is the main cause of the high interest rates charged by formal financial institutions. Whilst informal financial establishments utilise local and personal information about their clients, the larger financial organisations usually ignore such data because of the cost involved in collecting it.

Masakure et al. (2008: 2734) argue that the multiplicity of revenue generation methods affects the accuracy of SME records and also makes it quite difficult for researchers to stick to one mode of data collection.

According to Steel et al. (1997: 827) informal financial institutions are able to offset the transaction costs that banks fail to deal with when they are lending money to small and medium-sized enterprises. They get over the problem of asymmetric information by relying on local methodologies of acquiring information about clients/borrowers, such as character (Cook 2001). The formal financial institutions do not lack the capacity to overcome it but prefer to deal with the larger organisations which they can readily get access to their credit history. They are not readily willing to adapt to methods that will help SMEs to overcome their perennial asymmetric information problem. They see it as an additional unnecessary cost to their business operations.

A well-established custom in Ghana, termed the “Aunt Agatha Syndrome” by Cosh (1994), considers it the responsibility of the richest among the families to shoulder the burdens of the less financially privileged ones. Failure to extend help to the poor in the family one will be seen as a form of neglect. This family system has been handed down from one generation to another and seems not to have been affected by the gradual Westernisation of the country.

In addition to the family, savings collectors form another source of finance. Collectors receive the savings of the depositors and then repay them at the end of each month depending on the agreement. They sometimes initiate cash advances to their clients who are in need of working capital for their businesses. Collectors are constrained mostly by their small capital base, as they rely on the depositors for their capital. According to Reed (1994), some nongovernmental organisations (NGOs) run similar schemes and are making attempts to take it to commercial levels. The savings collectors and other revolving savings and loans schemes are collectively referred to as rotating of savings and credit associations (ROSCAs). In principle, ROSCA groups terminate after their full rotation but occasionally they continue over a long period (Reed 1994). Upon all members in the group have had their turns they either disband the group or continue to run such schemes. Other new members can join after a full cycle and some of the previous members can quit the group as well if they so wish.

Borrowers who are members in a borrowers’ clique often use peer pressure and social stigmatisation in order to ensure repayment of debt by other members of the clique who have fallen or are falling behind in payments. This is more effective when individuals fail to honour financial obligations to lenders, but becomes less effective if large numbers of borrowers fail to pay back their loans (for example where poor weather and/or low market demand affects a whole region of farmers).

Sometimes, lenders use interlinked transactions as a form of uncertainty reduction and adverse selection reduction, as well as a way of controlling moral hazard (Udry 1990). For example, an SME may get credit from a trader through the provision of equipment or raw materials, in which case produce is then sold to the trader who provided the equipment. Revenue for the SME is the difference between the actual price of the produce and the equipment cost.

In Ghana, some SMEs raise their capital from “susu”. This is a system of deposit collection method from members of an agreed group who contribute a fixed amount of money on a daily, weekly or monthly basis, depending on the agreement between the members of the group. Members take all deposits from each member of the group in turn, and this continues until the group decides to disband. Individual members of the group can drop out without any consequence and can equally decide to dismiss untrustworthy or non-contributing members. This is similar to the revolving loans introduced in some parts of Africa and Ghana by certain microfinance institutions (Steel et al. 1997).

Within microfinance institutions in Ghana, the revolving loan (susu) system is called TRUST. It is very commonly used among traders in Ghana to boost their working capital. Loan size depends on the size of the organisation and its capital base. In Ghana, the loans provided by microfinance institutions range from USD3 to USD1,000 for savings and credit cooperatives (SCCs) and up to USD7,500 for credit unions (the average loan is USD188 and USD112 respectively).

4.2 The Third Sector

The third sector refers to all the non-formal credit providing firms. They are termed as financial intermediaries. They include Credit Unions (CUs), microfinance organisations and other private firms that give credit to SMEs. Their activities are overseen by the Bank of Ghana. Such institutions in the third sector are governed by the Non-Bank Financial Institutions Law (1993).

In addition to previously mentioned difficulties faced by SMEs in accessing finance, political or microeconomic instability and poor physical infrastructure hinder SME development. These challenges have pushed the majority of SMEs in Ghana to depend on their savings and the profits from their activities to raise their operating capital. This is in line with the pecking order theory of Cosh and Hughes (1994) regarding the internal generation of finance by firms who only look for external funding if all internal avenues

of capitalisation fail (Abor and Biekpe 2009). This preference for internal sources of funding may result from the unwillingness of many SMEs to surrender control of their businesses to financiers. As firms increase in size and performance, however, they are more able and more likely to rely on loans, and will also often use the banks to accumulate their savings (Aryeetey 1996: 45-50).

In a World Bank Report on Africa and particularly Ghana in 2004, it was revealed that an overwhelming majority of the equity finance in start-up enterprises in Ghana comes from the business owners. Start-up capital is rarely available for small- and medium-scale enterprises, as banks do not want to risk lending to new investors with insufficient records. SMEs usually start their businesses by using savings and money from friends and relatives, and gradually build on their initial starting capital by ploughing back their profits (Bank 1994).

SMEs manage their growth through financing from profits (retained earnings) and non-bank sources. They use suppliers' credits to purchase equipment and also as operating capital. Once they are established they sometimes rely on cash advances from customers to run their businesses (Bank 1994). The retained earnings serve as an important source of SME financing.

The entrepreneurial capacity of women is inhibited by the cultural practices of the country, although the general framework for women's engagement in entrepreneurial activities in Ghana is quite open. The majority of women who were able to grow their micro firms to the level of small and medium-sized enterprises did so through their own efforts as they were not able to access finance for their businesses – the weak financial credit infrastructure in Ghana is even weaker in relation to women's financial needs. For this reason, The Women's Development Fund has set up a special credit facility to facilitate the financial and social needs of Ghanaian women (Group 2007).

D'Espallier et al. (2009) state women have high repayment rates and it is therefore preferable that the government's credit facilities be directed towards women in small and medium-sized firms. However, research has shown that women are not as highly educated on average as their male counterparts and may therefore have difficulty dealing with the bureaucratic administrative methods of lenders (<http://www.unicef.org/infobycountry/Ghana>-accessed on 19/10/2010). As a result Group (2007) suggests that the Government of Ghana should improve women's education in order that they may benefit from the opportunities provided by the newly

created Micro and Small Loans Centre (MASLOC). MASLOC is a body that disburses loans to the SMEs in Ghana.

Additionally, research conducted by the Ministry for Women and Children's Affairs in conjunction with The World Bank exposes the unrealistic nature of bank requirements in Ghana, impeding borrowers' access to credit. These are often based on European systems. The requirement to provide utility bills in order to open a bank account is one example of this. Most homes in Ghana are occupied by extended families, where the richest member usually pays all the bills, in accordance with cultural traditions. The owner of the house has his name on all utility bills so it is quite difficult for tenants to get personalised bills in their names. In response, the "Know Your Customer (KYC)" policy was introduced by the Government of Ghana after 2001. KYC is the Basel Committee on Banking Supervision on Customer Due Diligence. It ensures that banks have adequate information about the customers they are dealing with. It was published in October 2001. This particularly emphasised the need to change collateral-based lending to cash flow-based lending, since most borrowers lack collateral (International Financial Corporation 2007). This KYC policy was being considered for abolition because it was deemed ineffective (Group 2007).

4.2.1 Social Enterprises

Social enterprises are organisations that have social and environmental concerns as their primary reasons for existence. They are interested in overcoming social injustices by empowering the disadvantaged people in a society, and aim to improve quality of life.

Radford (2009) summarises the activities of social enterprises as businesses which place emphasis on benefitting society at the expense of their own profits. They usually use profits to fund developmental activities in the communities they operate in.

The social enterprises pay for uneducated children to get education, run evening classes for illiterates who missed out on formal education, and help poor women with start-up capitals. They establish ventures in communities to provide jobs for the unemployed people (Assimeng 1990). The 31st December Women's Movement is a typical social enterprise in Ghana.

One distinctive characteristic of social enterprises is that they downplay the importance of shareholder values in whatever business activity they engage in focussing instead on social, environmental and financial accomplishment to the advantage or benefit of the

community. This sets them apart from the conventional businesses, which use profit as a measure of success.

In the United Kingdom there are approximately 55,000 social enterprises, which make a huge contribution to the UK economy. They have a GDP of £27 billion (1.3% of the total) and employ around 5% of all UK employees⁸.

Ghana also has many social enterprises, performing roles such as the provision of microcredit to the poor, and championing gender issues and government policies that benefit children as well as women. A lack of adequate statistical and technological equipment has prevented the achievements of such organisations from being quantified graphically, but it is clear that they play an important role in reducing poverty and improving the standard of living in rural areas and in the urban centres.

The social enterprises in Ghana include: the 31st December Women's Movement, the Young Christian Women's Association, the Abibiman Sankofa Cultural Movement, Action Aid Ghana, the Africa Leadership Forum, the Centre for Sustainable Development Initiatives (CENSUDI), Plan International, BaBa Blankets, and more. The current study will focus on the 31st December Women's Movement.

4.2.1.1 The 31st December Women's Movement

The 31st December Women's Movement (31st DWM) is a typical example of the financing of SMEs through social enterprises.

Following a coup d'état on 31st December 1981 that brought Flt Lt Jerry John Rawlings to the presidency for the second time, the new president's wife, Nana Konadu Agyeman Rawlings, founded the 31st DWM. An activist on issues regarding the socioeconomic development of women and children in Ghana, Rawlings led a movement which brought improvement in the lives of both women and children. Her campaigns are listed below.

Firstly, she championed free education for all children of school-going age, although this was not implemented until the era of her husband's successor, President John Agyekum Kuffuor. He finished his tenure of office and his political party also lost an election to an opposition.

⁸ Social Enterprise London, 2005 <http://www.sel.org.uk/about-socialenterprise.aspx-accessed on 19/10/2010>

She also campaigned for the abolition of female genital mutilation, made sure absent fathers paid child support for their children (brought criminal charges against irresponsible runaway fathers), set up evening adult education programmes that allowed working mothers to gain reading and writing skills in the language of their choice, educated women on the policies affecting them, arranged capacity building training for women, initiated income-earning projects for women in the local communities, set up “gari” processing factories in underdeveloped and neglected communities (“gari” is a staple food in Ghana made from the root of the cassava plant), and provided microfinance for SME owners in both rural and urban centres.

The movement has also on occasion performed traditional government responsibilities, such as providing medical equipment for hospitals. They recently took on financial support for the children’s ward of Princess Marie Louis Hospital in Accra (Charles 2009).

As Nana Konadu Agyeman Rawlings states,

“We want to educate women and give them income-generating activities as an alternative to having children. If you just say, ‘Distribute condoms,’ it goes in one ear and out the other.”

More than 50% of the population in Ghana are women and the majority of them live in the rural areas. They provide about 88% of the food in the economy, and run most of the homes in Ghana⁹. The DWM has enabled women to make decisions in the contexts of both family and local politics.

The United States Agency for International Development (USAID) and the United States Department for Agriculture (USDA) have pledged to support the 31st DWM in providing non-formal education for illiterate adults in Ghana, fighting to abolish child labour, ensuring gender balance in the education of children and training women in leadership¹⁰.

One outstanding feature of the organisation is its open-door policy to any member of society, regardless of political affiliation. The organisation’s main source of funding is the United Nations Development Fund (Assimeng 1990).

⁹ solarcooking.wikia.com/wiki/31st_December_Women’s_Movement, accessed on 4th January 2009.

¹⁰ www.ghanaweb.com: accessed on 9 November 2009 and <http://nkrawlings.wordpress.com> accessed on 16 November 2009

4.2.1.2 Catholic Relief Services

The primary aim of the Catholic Relief Services (CRS) is to provide for the needy in Ghana. It has been operating within the country since 1958. Partners include the Catholic Bishops' Conference of Ghana, the Ministry of Education, Ghana Education Service, the Ministry of Health, Ghana Health Services and the Department of Social Welfare. They focus on the areas of education, health, water and sanitation, agribusiness and peace building in the three northern regions (Upper East, Upper West and Northern Regions)¹¹.

Details of their activities are as follows:

- Education: the CRS provides training and teaching materials for teachers, and also food and other services in order to encourage attendance at schools.
- Health: they provide medicine and facilitate access to medical facilities by supporting the construction of clinics. They also offer counselling and help care for patients with HIV/AIDS and their children.
- The CRS provides water and sanitation projects in the rural areas of Ghana, and also helps villages to build household latrines and boreholes (water facilities).
- Agribusiness: The CRS works with small-scale farmers to improve the production and promotion of their produce by ensuring that farmers are trained on the latest and most efficient farming practices.
- Peace-building: The CRS mediates in the peace process in the conflict-ravaged northern regions of Ghana. They have established community-led peace centres in some of the satellite villages in the affected regions.

4.2.2 Local Credit Institutions

There are many institutions that provide credit facilities to SMEs and individuals in Ghana. The most prominent among them are the banks, venture capitalists, savings and loans companies, microfinance institutions and non-governmental and apolitically affiliated organisations (social enterprises, para-governmental organisations, religious bodies such as the Catholic Relief Services, and “susu” collectors).

¹¹ (<http://crs.org/ghana> accessed on 11 February, 2010); <http://www.actionatlas.org> accessed 11 February 2010)

There are underworld loan providers or loan sharks, whose loans are unsecured and have high interest rates. They sometimes take collateral from borrowers as a buffer against non-payment.

4.2.2.1. Rural and Community Banks

Those living in rural areas have typically been unable to meet the minimum deposit requirements and thus have often been neglected by the mainstream banks. Rural banks were first initiated in 1976 to effect the mobilisation of savings and credit facilities in the rural areas, granting commercial loans to individuals and groups within their communities (Steel and Andah, 2004). The banks became popular after the introduction of Government cheques to cocoa farmers in the early 1980s (Steel and Andah, 2004).

The law in Ghana allows Rural and Community Banks to perform any of the functions of the mainstream commercial banks except foreign exchange operations. They serve their local community, and are owned by the local people through the buying of shares. Rural and Community Banks were established in 1976 to mobilise savings and to lend money to the locals, and became popular in the 1980s. They have a very low capital requirement compared to the formal financial institutions.

Savings and Loans Organisations operate limited banking activities and are restricted to microfinance activities. They take deposits (savings) and lend money to their customers. The semi-formal financial institutions are NGOs and the Credit Unions, whose main objective is to fight poverty in the local community. Credit Unions accept deposits from and give small amounts of credit to their members. They are registered under the Department of Co-operatives. Money lenders, trade creditors, personal loans from family and friends, self-help groups, “susu” collectors, etc. are to be registered by the police under the Moneylenders Ordinance of 1957.

Approximately 5% of households in Ghana have access to mainstream commercial banks, whilst the majority of the populace does not meet the minimum requirement set for them to open a bank account. This has placed about 60% of the money in circulation into the hands of Rural and Community Banks and Savings and Loans institutions (Steel 2004). The households are not accepted by the main stream banks so they turn to the rural or local community banks. This has contributed to placing a large proportion of the money in circulation in the hands of the rural banks.

4.2.2.2 Microfinance Institutions (MFIs) in Ghana

Microfinance became more popular in the 1980s as a response to the failed subsidised credits to the poor by their governments. Local non-governmental organisations (NGOs) started to look for alternative solutions to the credit problem. The financial challenges of SMEs necessitated the formulation of microfinance idea. The idea was to look for a sustainable solution to the credit shortage for SMEs. The idea was piloted by Professor Mohammed Yunus (the modern day icon who is credited with microfinance introduction) who led the new sustainable microfinance method with a pilot group lending scheme for landless people in his home country, Bangladesh. The scheme later became the Grameen Bank (Ledgerwood 1998).

As at 1995, approximately 500 million poor yet economically active people were operating micro and small enterprises globally (Forum 1995). Microfinance institutions focus on these people, who cannot access the formal credit market because of their inability to meet the credit standards set by the formal financial institutions.

The microfinance institutions give small short-term loans to SMEs. Unfortunately, these loans attract high interest rates because of the failure of most SMEs to provide collateral on application. The loan repayment procedure is not too hard on borrowers, however, as they may choose to pay instalments on a daily, weekly or monthly basis and are not obliged to begin repayments until they have sold their goods. The repayment money then goes to other borrowers, and this cycle of loan disbursement continues as long as there are further clients waiting to borrow from the credit organisation.

Microfinance is a US\$30 billion global industry. Microfinance institutions (MFIs) are largely unregulated (Copeland 2009). A microfinance institution is defined as one whose legal structure, objectives and methodology differ from those of the formal financial institutions. They provide financial services to those who are perceived by the traditional banks as risky borrowers and who therefore have difficulty accessing credit.

These institutions are gradually gaining root in Ghana. They were formally recognised by the Government of Ghana in 1999. They are restricted in the type of services they can provide to their clients. They do not carry out any savings and insurance activities. For example, they are not to engage in collecting savings from their clients (Gallardo 2001).

Microfinance exists for the purpose of lending money to low-income households or small businesses in either rural or urban centres in order to boost their economic activities. According to International Labour Organisation (ILO) (1973), microfinance has

the potential to unearth the talents of the poor by giving them their life savings through financing their economic activities. They use the profit from their ventures to start saving for their future. Development agencies, non-governmental organisations and religious and Para-governmental bodies have devised unique approaches to alleviating poverty in the developing world.

MFIs usually use non-standard methods of lending, relying mainly on character references in the absence of collateral on the part of the borrower. They operate in rural and urban areas.

The MFIs in Ghana include the Sinapi Trust, ActionAid, the 31st December Women's Movement, Citi Savings and Loans, the Catholic Relief Services, Freedom from Hunger, Sasakawa Global 2000, the Women's Revolving Loan Fund (CUSO), World Vision and Women's World Banking (Gallardo 2001). They may be owned by the government, shareholding individuals and organisations, non-governmental organisations or international benevolent institutions (Ledgerwood 1998) and (CGAP 2009).

4.3 Government Sources

(Refer to section 3.3.1.1)

In 2000, National Board for Small Scale Industries (NBSSI) sent invitations to financial institutions to partner with it in providing special credit to SMEs. Of the 45 institutions invited, only 1 responded but express disapproval in funding SMEs (Tagoe et al. 2005: 335). Banks still feel reluctant to lend to SMEs in Ghana. The chapter has exposed the unfilled gap still existing between SMEs and the lenders. Despite the effort of the government, lenders and SMEs to close the gap between them, there is still a missing puzzle that the lenders need to find before they can meet the needs of SMEs and the other way round. Since there is still gap between the borrowers and the lenders SMEs resort to their savings, family and friends for their financial needs. The next chapter discloses the impact of social organisations of the performance profitability and growth of SMEs.

Chapter Five

Social Capital

All organisations and individuals are involved in some kind of social capital activity. Social capital is a tool for people or organisations engaging in networks and social programmes (Radford 2009), enabling the extension of skills to areas in which individual members are lacking and therefore helping people to do what they could not do as individuals. Social capital is an alternative to human capital. In this study, social organisations are trade (professional or job related) associations and social networks (friends, families and acquaintances). The chapter winnows out the benefits associated with being a member of a social network.

Bourdieu and Wacquant (1992: 119) define social capital as all the resources, either actual or virtual, that individuals or groups gain as a result of building a network. It could be either institutionalised or non-institutionalised relationships of mutual acquaintance and recognition with other individuals or institutions.

Field (2003) purports that social network helps individual members or groups to get quicker results. Individuals and groups within a particular social network bond together as a result of norms to which they all adhere. Thus social capital is usually governed by a high degree of reciprocity, with an emphasis on trust and shared values among the members.

There is plenty of anecdotal evidence of the huge impact of social capital on individuals and groups in Ghana, and in Africa as a whole. In Ghana, tribal funeral ceremonies are a typical example of how social capital manifests itself in the communities. When one is bereaved the other people in the community who are not relatives come to spend quality time consoling the bereaved family. The more friends the bereaved family has the more people come to spend time in consoling them. The introduction of relatives and friends to people in positions of prominence for employment and educational purposes is another aspect of social capital. The more people a person knows, the richer s/he is in social capital.

5.1 Networks

Networks can provide direct benefits to entrepreneurs by granting them access to up-to-date technology and information relating to their area of the market. The factor most

crucial to every network is trust. Without trust, a network will collapse (Humphrey and Schmitz 1998, adopted in Rogerson 2001).

Overa (2006) highlights the importance of informal networking in the trading environment among small and medium-sized firms in Ghana. He showed traders succeed if they form a supportive network, despite the risk involved in basing business on trust. The most binding factor in such networks is the informal unwritten moral code operating in families, clans, ethnic associations, marketplaces, churches and communities. This code ensures protection for the people involved and serves to prevent and/or control law-breakers. Examples of networks in Ghana include a group of cocoa farmers, and groups for industrial activities such as metalworking, food processing, clothing and furniture. Some of the social networks are Hairdressers' Association, Dressmakers' Association, and Hoteliers' Association of Ghana

Barr (2000) reiterates in her study of the manufacturing firms in Ghana that businesses actively engaged in social networking with other firms do better than those which do not have strong social capital. Her work proved how quickly and easily knowledge transfers from the originator to other members of the same social group. This has also been found to be the case in other parts of the world, such as Italy (Putnam 1993). Amin (1994) stresses the importance of the structure of these networks, stating that the relationships between members of the network determine the benefits that they each derive from the association.

Social capital has the potential to reduce screening costs, especially in Ghana where the government does not have accurate data about all the firms in the country and where people may be less educated and are therefore less likely to base their market operations on market research. The informal social networks serve as an appropriate means of disseminating information in an economy which lacks proper market regulations (Barr 2000).

SMEs have social networks that help them to overcome their areas of weakness (Lyon 2003). These networks have the potential to help individual firms grow internally because they get some resources for free for being a member of that association. Though these networks have informal governance structures and may be ill-organised, they help SMEs to achieve their goals by sharing resources which individual firms lack (Biggs and Shah 2006: 3043-3044).

Social networks may have negative consequences for non-members, however. Member SMEs may restrict trade/supplier credit to outsiders, may discourage customers from buying from non-members, and may refuse to include non-member firms in discussions on issues that affect them. These are some of the negative strategies used by network members to encourage other SMEs to join their group.

Networking also stifles competition, as it wards off non-member competitors. It may in addition reduce the competence and efficiency of individual members, as the protection of the group lessens the need for new and innovative ideas.

Networks are usually sector-based. Some of the benefits derived from networking include increase in sales revenue through the referral of customers by other members in the network, negotiation over payments to suppliers, open exchange of information among members, experience sharing, collective action and an increased adaptability to their constantly changing environment. These factors give network members a competitive advantage over non-members. The SMEs use social networks as buffer against problems they cannot individually tackle.

The most thriving networks are based on ethnicity as well as business (Biggs and Shah 2006: 3044). They succeed because of the trust between members. Across Africa there are many small ethnic groups, and the members of one ethnic group instinctively trust each other.

Coase (1937, 1988), Alchian (1972) and Williamson (1985 cited in Biggs, 2006) hold the view that a firm is shaped by the contracts and relationships it holds with other members in related business activities. In Ghana there are associations for almost every product or field of business, and it is considered that these associations contribute to help firms to grow.

The power of networks in facilitating development and performance of SMEs cannot be underestimated. In Ghana, where there are market imperfections, a network will boost the entry level of its members by linking them to well established large firms to gain credible recommendations, connections to credit facilities and dissemination of information and ideas among members.

5.1.1 Family

The prevailing extended family system in Ghana usher in the unique level of association among different nuclear families to come together as one big family where each

member of the extended family takes care of other members if they have the resources to help the underprivileged members. As a result, the family structure in Ghana is one of the fundamental networks of getting assistance (Humphrey and Schmitz 1998).

The family is the first point of association. The ownership structure of the majority of SMEs strengthens the ties among family members. Majority of SMEs in Ghana are predominantly owned by family members (Makatiani 2008), and get their funding from family and friends (Masakure et al. 2005). The family plays a big role in the running of SMEs. They contribute money and other resources. This is in part due to the fact that most SMEs in Ghana are owned by individuals, who are usually unable to access formal credit (Mensah 2004).

Cosh (1994) has shown that SME owners first seek the help of relatives before they look elsewhere, a finding supported by the pecking order theory. Family members do not charge interest, which reduces costs for SME owners (Abor 2007). This support strengthens the bond between SMEs and their families (Mensah 2004), and therefore encourages SME owners to continue seeking credit through relatives rather than more formal routes.

5.1.2 Professional Associations

It is worth talking about networks as a variable in the current study because they are stronger in West Africa, where the study is being conducted, than in East Africa (Bank 1994). Kraus (2002) claims Business Associations (BAs) in Nigeria have significant influence on the development of policies affecting their members, while the political scope of BAs in Ghana is very weak. Thus Nigerian Business Associations seem better organised and more highly developed than their Ghanaian counterparts.

There are many professional bodies which exist to further the advancement of businesses in their sectors. Examples of these include the Dressmakers' Association, the Association of Garages, the Association of Medical Herbalists (or the 'Traditional Herbalists Association'), the Ghana Bar Association, Old Boys' and Girls' Associations, the Trades Union Congress and the Teachers' Union. The associations bring together the members which creates cohesion in their activities.

For instance, as part of its networking activity, the Bar Association visited Professor John Evans Atta Mills (President of Ghana) who himself is a lawyer on Monday 23rd November 2009 (GNA, 2009).

In summary, social capital is a network of relationships among people and organisations with similar behavioural patterns, who share trust and understanding, and who work together in a way that enhances societal cohesion. The members meet to share their challenges and find common solutions to them. The executives of the associations represent the groups to seek redress of their problems at meetings with government agencies.

This study will consider networks of firm-related activities from the manufacturing and hospitality sector(s) of the Ghanaian economy.

5.2 Trust

Small Business Membership Organisations (SBMOS) are business associations which have small businesses as their members. They have risen to a new height because of the positive contributions of small-scale enterprises to the policies pursued by many governments in both the developed and developing world (Gibson 1994). SBMOS have the following objectives:

1. Lobbying groups to influence their respective governments in the decisions that affect them.
2. Creating awareness of their industry/organisation and encouraging its modernisation and development in matters such as access to financing and training.

Evers (1994), Parry (1989) and Bourdieu (1977) emphasise the importance of taking into consideration the cultural, social and moral values of the Ghanaian economic system when doing business in the country. They highlight the need to align oneself with these values in order to be accepted as a trustworthy member of an organisation.

Meso-level trust is the trust businesses in same associations have for individual members in the association (Bourdieu 1977). Bourdieu refers to meso-level trust as the sort of trustworthiness that comes from the attainment of trust which is born out of a trustworthy organisation because one is a member. Overa (1998) and Humphrey and Schmitz (1998: 39) claim that members of a network organisation gain access to

resources which they would not be able to access as individuals. The trust accorded to individual members of the organisation is based on the trust the organisation as a whole enjoys from outsiders. This is termed 'characteristic-based trust'.

According to Humphrey and Schmitz (1998: 54), there has been a degeneration of both macro- and meso-level trust in Ghanaian communities. Meso-level trust arises when the traders' family background, ethnicity, church membership, or other associations play an important role in accessing social networks and economic resources. Economic success is to some extent based on the ability of a trader to personally penetrate socioeconomic networks in order to acquire resources. Humphrey and Schmitz note that the emphasis is now on micro-level trust between one individual and another. Trust within formal and semi-formal organisations is rapidly giving way to one-on-one trust in the dealings of SME owners with their fellow traders.

One benefit often gained from social capital is the exchange of information among traders in a particular business sector. For instance, traders of agricultural products deal with one another to gain up-to-date information about seasonal goods and prices. It is very detrimental to the traders in one market if the goods are sold cheaply in other markets without their knowledge. If the customers in the more expensive market get informed that similar items are sold at other markets for less they move to the less expensive market. This would lead to unsold agricultural produce, being highly perishable, at the more expensive market (Lyon 2000).

5.3 Gender Organising Bodies

These are organisations that exist in the country to resolve and rectify gender related issues. They are in operation to correct imbalances in gender matters and sometimes, make requests to the parliament to pass gender-related laws.

5.3.1. Gender

There are many gender-related organisations in Ghana. This paper focuses on two prominent ones: 31st DWM (discussed in 4.2.1.1) and the Domestic Violence Victim Support Unit.

5.3.1.1 Domestic Violence Victim Support Unit (DOVVISU) (formerly The Women and Juvenile Unit-WAJU)

The Domestic Violence Victim Support Unit (DOVVISU) was established in October 1998 as the Women and Juvenile Unit (WAJU) to address the rising number of cases of abuse and violence against women and to research the patterns of this abuse (Amankwah

2009). In January 2005, for example, they recorded 300 cases of violence and varying forms of human rights abuse against women and children (GNA, 2005). The organisation provides a refuge for women and children who experience abuse, and aims to increase support from the public for these vulnerable groups (IMF 2006). The unit changed its name from Women and Juvenile Unit to Domestic Violence Victim Support Unit between 2004 and 2005.

The main roles of DOVVISU are to investigate all offences against women and children, deal with child abuse cases, solve offences by the youth, solve child delinquency problems, and prosecute all cases if necessary under the instruction of the Inspector General of Police (IGP)¹².

The review of literature on social capital indicates the potential benefits of social organisations to SMEs. The organisations could help them to overcome their challenges which they could not resolve on their own. They also gain useful information from other members of the organisation. The next chapter explores the effect of ownership type on performance profitability and growth of SMEs.

¹² <http://www2.irb-cisr.gc.ca> accessed on 11th February, 2010.

Chapter 6

Types of SME Ownership

This chapter unravels the impact of ownership structure on performance profitability and growth of SMEs in Ghana. It takes a systematic look at different kinds of ownership, with keen emphasis on family ownership and sole proprietorship. Despite the difficulty in gaining information on manufacturing firms in Ghana, Acquaah (2005) posits that the variables of age, size, and asset level and ownership type engender enough evidence to make a reliable hypothesis about firm performance. In his research he suggests that, of these variables, ownership type has the greatest effect on the performance of an organisation.

Acquaah also mentions the differing management priorities associated with different ownership types. For instance, domestically owned firms do not put much emphasis on efficiency, cost reduction and quality improvement, in contrast to foreign-domestic joint enterprises.

6.1. Family

Makatiani (2008) posits that most African SMEs are informally run family-owned businesses. He also points out the lack of adequate records held by these firms, and the fact that they tend to put the interests of the majority shareholders (usually the owners) above those of the minority shareholders and employees.

Numerous studies about SMEs in Ghana emphasise the prevalence of family-owned businesses, sole proprietorship, limited companies, and sometimes partnership. Abor (2007) claims that family-owned businesses can reduce the cost of running a firm because they can avoid the agency cost associated with employing external members. They save money by using local human resources and managerial expertise.

Abor (2007) and Makatiani (2008) emphasise that SMEs capitalise on this advantage to make more profits. However, the employment of family members has its disadvantages. It can lead to self-aggrandisement and entrenchment of the management power. The family members usually abuse their positions by intimidating the other workers even when they (the family members) are not running the firms very well.

Furthermore, the lack of an outside perspective may be detrimental where a business is in need of change. Firms that recruit external employees, on the other hand, are better organised and run on average than family-run businesses (Biggs 2006).

6.2. Sole Proprietorship

SMEs in Ghana are dominated by sole proprietorship, with the owner making all the important decisions about the business (Mensah 2004; Bridge 2003: 211).

Although large organisations tend to be owned by many people, there is limited employee ownership of such organisations in Ghana. The only time in which employees have become involved in owning large organisations in Ghana was when state-owned enterprises went through divestiture in the 1980s. Employees were given the opportunity to own shares in the newly privatised organisations, and were given information about the shares in order that they could make informed decisions. Thus they benefited from insider information, whilst outside investors did not (Dzakpasu 1998).

The examination of the kinds of ownership portrayed that SMEs are overwhelmingly owned by individuals and families tend to run majority of them. Family ownership structure contributes to the cost reduction of operating costs to the firms as the literature search highlighted.

The ownership structure of an SME could contribute to its performance profitability and growth as the literature reviewed. Family and sole proprietorships are more likely to struggle to acquire finance. They also lack outside perspective which means they do not enjoy the benefit of extended expertise which partnership offers. On the other hand, they could be a source of curtailing high operating costs where finance is non-existent. The next chapter addresses the impact of human capital on performance profitability and growth of SMEs.

Chapter 7

Human Capitals (Education and Qualification)

The chapter starts by looking at the main human capacity building institution in Ghana and continues to examine how training and education have been perceived by other previous researchers to have profound bearing on performance profitability and growth of SMEs in Ghana.

7.1 Development

Empretec in Ghana was established in October 1990 as a project of the United Nations, Barclays Bank Ghana Limited and the Government of Ghana. It is an offshoot of the National Board for Small Scale Industries, and prioritises the development of human capital in SMEs in Ghana. It works to upgrade technology, manpower development and other areas by running training courses on relevant business models and advising SMEs on the best business practices in Ghana (United Nations Conference on Trade and Development (UNCTAD) Report 2003: 65). It operates in three regional offices in Accra, Kumasi and Takoradi (the three main commercial capitals).

Empretec also provides access to finance (Kyeremanten 2007 and Gibson 1998), serving as a catalyst in the developmental needs of SMEs in Ghana. It does not serve only one sector of the economy, but its services are for all firms in all industries needing their assistance.

Empretec has so far given training to 1,650 people through day workshops, trained 10,000 people in management and customised seminars, and helped 900 people (of which 65% were women) to gain access to credit facilities (Tweneboa-Boateng 2008).

Interestingly, Empretec has spread to another ten countries in Africa and Latin America, and is now recognised as an international organisation which has its roots in Ghana. Yet despite its geographic growth and increased manpower development there has so far been no in-depth study of its impact on its clients (Gibson 1998).

7.1.1 Training and Education

In a report for United Nations Secretariat for UNCTAD, Tweneboa-Boateng (2008) stated the need to build the entrepreneurial skills of SME owners in Ghana. Statistical figures from the United Nations Educational, Scientific and Cultural Organisation (UNESCO) published by Agency (2009) shows that 42% of the Ghanaian population are illiterate, of

which 50% are women and 33% are men. The lowest illiteracy rate in Ghana is in the Greater Accra Region, which is the national capital and has an illiteracy rate of 21%.

The skill levels of graduates from Ghana's universities fall short of their Ghanaian counterparts who studied in advanced countries. It costs companies more to train Ghanaian graduates to the industry standard than they expect for graduate employees. This has led to organisations preferring Western-trained graduates to locally trained ones (Madilo 2009).

Likewise, among SMEs in Ghana there is a considerable lack of skills, knowledge and experience necessary for accessing market opportunities. SME owners often do not have adequate skills for running their business, and stand little chance against the competition (Afenyadu 1999).

Bigsten (2000) argues that firm-level productivity (value added per employee) is lower in Ghana's manufacturing sector than in Cameroon, Kenya and Zimbabwe. According to Frazer (2005), workers in the manufacturing industry in Ghana have poor skill levels and are on average less educated than those in other African countries.

With regard to the service industry, Kerzner and Thamhain (1984) suggest that more workers should undertake formal training in order to boost their performance. Given the intangible nature of the service products, they cannot be assessed until consumed. Training programmes would increase the workers' likelihood of achieving the standard skill(s) necessary to provide quality services which eventually translates into repeat visits by clients (Overa 2006).

Beaver (2002) concludes that poor strategic management skills and abilities negatively affect the performance of SMEs in Ghana, and a similar study by Fening et al. (2002) shows that SMEs which have strong management skills are better performers than those that do not have any such skills.

Masakure et al. (2008) argue that better educated people are able to start business with greater capital outlay because of their ability to earn a high wage in previous careers. The report mentioned growth of firms whose owners have university/higher level of formal education, which resonates with earlier studies by Akoten (2006) and Daniels (1998).

Biggs and Shah's study (2006) also shows the importance of education. They found that firms with owners who have university degrees are likely to establish firms which are

about 50% larger than those without university qualifications. Yet the majority of SME owners have only a secondary (high school) education. Some do not have any formal education at all and as such cannot read, which obviously makes record-keeping very difficult.

Frempong (2008) posits that many better educated SME owners have moved from the informal to the formal sector because of their ability to assimilate both the national and global business trends.

Similarly, Abor (2007) claims that the level of education of entrepreneurs has a significant influence on their performance. Abor emphasises that better educated people are more likely to rely on external information, network development and external consultants as well as formal accounting and monitoring procedures. Thus they are more able to identify and make use of relevant information for their businesses.

Gartner (1999) stated that uneducated and unskilled workers in SMEs negatively affect performance. A reduced ability to grasp new concepts limits their ability to conduct business effectively and innovatively. In addition, people lacking formal education often have limited access to new technologies and market information. This, alongside weak management skills, inhibits strategic planning for sustainable growth (Mensah 2004).

Evidence indicates that education and training could be particularly helpful if tailored to market issues, and may help SME owners to take advantage of opportunities (Mead 1998 and Rogerson 2001).

Jones (1997), however, argues that Ghanaian entrepreneurs learn by experience, which is a costless way of gaining skills without unnecessary financial commitment. He makes the point, supported by Frazer (2005), that in Ghana, apprenticeship is one of the most principal training means of developing human capital.

Barr (2000), furthermore, argues that education has no direct effect on the performance of a company. In her study of manufacturing firms in Ghana she did not find anything to allude to education as the cause of performance improvement in manufacturing firms.

According to the recommendations resulting from the findings of research by the International Finance Corporation and Ministry of Women and Children's Affairs (Group 2007), there is a general lack of education or skills in Ghana. The skill shortage is particularly common among women, in financial transactional activities, business terminology, norms and practices.

According to a report by PANAPRESS (2009), the Government of Ghana secured some soft loans from the Government of Italy with the aim of building human capacity among SME entrepreneurs in Ghana. The money helped develop the staff at the Ministry of Trade and Industry, which is in charge of business activities in the country.

In a study of British SMEs, Laforet (2009) notes that the main challenges facing manufacturing SMEs are a lack of skilled labour, inflexibility and inability to maintain innovation. A similar picture pertains to the manufacturing SMEs in Ghana (Shah 2006).

Ampah (2009) reiterated the need to build human capital in Ghana in response to a report by the Association of Ghana Industries (AGI) on the low human capital development in the Volta Region of Ghana. According to the report, the people in that regions lack entrepreneurial skills to start and run businesses.

Bank (1994) argues that lack of credit has been over-researched, whilst the issue of poor management has not been given the attention it needs. Entrepreneurs fail to view their weak managerial skills as a factor limiting the success of their businesses whilst in reality lack of demand for their products, for example, could be addressed more effectively if they had better managerial skills.

According to an UNCTAD conference report in 2003, the coverage and technical content of the Ghanaian education system do not match the requirements expected by investors from university graduates. The report highlights the substandard level of the graduate skills of Ghanaians, who lack exposure to international standards. The lack of managerial skills also raises serious concerns among foreign investors (United Nations Conference on Trade and Development Report 2003: 13). Ghanaians fared badly behind their Asian and Latin American counterparts in technical capability.

The human capital aspect of SMEs is an issue that needs to be properly addressed. In a study of Sub-Saharan African countries, Biggs and Shah (2006: 3046) consider insufficient human capital and poor managerial practices to have severely affected the ability of SMEs to compete with large firms. The inability of SME owners to analyse the market puts them at a disadvantage compared with larger organisations, which do have the resources to carry out market research. Although it may not be necessary for SMEs to carry out the same extent of market research as the larger organisations, a better understanding of the market would be of great benefit to SMEs.

Human capital development in Ghana and Africa as a whole has been a concern of many multilateral organisations, including The World Bank and the IFC (Nyagah 2009). The African Management Service Company (AMSCO) has taken the initiative in addressing the human development problem by providing training and services for the local staff and management of organisations in Ghana and Africa as a whole. AMSCO training aims to solve some of the problems associated with SMEs in Ghana, helping to update staff skills and to improve the productivity of firms. The provision by AMSCO of managers with expertise in running of businesses has benefitted eleven companies in Ghana, including The Pure Company, Golden Beach Hotels, African Sun, Afrique Link Limited, First Allied Savings and Loans Limited. The managers make sure that the businesses in which they are placed are run in such a way as to maximise profit.

With the financial assistance of the IFC, ten private schools in Ghana were given US\$2.2 million through the Trust Bank to strengthen their financial, managerial and educational capacities. The funds (issued on 6 June 2005) also went towards creating an enabling atmosphere for learning in the financial year 2005/06. The funds were used to construct new schools, renovate old schools, and purchase educational materials like computers and science laboratory equipment and capital expenditures. So far, seventeen schools and six thousand students have benefitted from the financing programme.

Furthermore, the Global Business School Network (GBSN) has helped the Ghana Institute of Management and Public Administration (GIMPA) to develop eleven new Masters in Business Administration (MBA) course modules. These modules are consistent with global standards, and should therefore help to develop the human capital of Ghanaians to an acceptable international level.

Education and training could potentially contribute to the performance profitability and growth of SMEs, as the pieces of information gathered for the study depicted. Therefore, the performance of a business could be seen as being directly linked to the human capital of the firm. The focus of the literature shifts to the impact of age and size of the performance profitability and growth in the next chapter.

Chapter 8

Age and Size of SMEs

The chapter tackles the effect of age and size on performance of SMEs. It looks into the application of age and size of SMEs to their ability to perform and grow in their business activities. It dwells on the work of previous authors and relates them to the current study.

8. 1 Age

Statistically it is proven that small firms have higher failure rates than larger firms (Johnson 2007; Economist 2011). Therefore some scholars, in order to measure SME performance, look at progressive growth or turnover of the number of people in the firm. Gibson (2002: 2) asserts that an increase in numerical strength is a sign of improved performance.

According to Johnson (2007: 64-65), the age of a firm also affects performance. He states that firms that have been in business for a longer time are likely to perform better than those which have been in business for only a short period.

Kalleberg (1991) and Phillips and Kirchoff (1999) make a similar claim, stating that the younger the firm, the more likely it is to fail. Their findings show the survival rate among younger firms to be very low in comparison with older firms. An older firm, on the other hand, is more able to establish its credibility in the market and to gain access to finance from the financial institutions (Abor 2009).

Research conducted in the developed world suggests that both age and size affect firm performance. Some studies conducted in United Kingdom and other developed countries showed that productivity was lower in smaller and younger firms than in larger and older firms (Johnson 2007; Storey 1994; Das 1997 and Roberts 1996).

Frazer (2005) asserted new firms either grow whilst learning to deal with initial teething problems common with new entrants, or are forced to leave the industry if they do not do so well. Older and larger firms, on the other hand, are less likely to fail than newer and smaller firms because they have more experience in the industry. The old firms have gained experience in the market. They have also built up enough financial and human resources to help them through difficult times. Frazer (2005) argues that

although older firms are more likely to stay in business they become more prone to decreasing in their survivability as they get much older.

Age can have a positive effect on the performance of SMEs. However, if a business is directed by its founding members, there is the likelihood of a lack of innovation and flexibility, and less ambition and positive activity as the founding members grow old. Such firms are not inclined to suit ever-changing environmental and economic conditions (Daniels (1998) and Vijverberg (1991)).

According to a study done in Ghana, most SMEs have a lifespan of two years. This is the stage to which most SMEs survive if they cannot cope with the economic challenges they encounter (Quartey 2001). Aryeetey (1994), on the other hand, purports that most SMEs have an age limit of five years, after which they are able to overcome the normal challenges affecting a business.

SMEs in their first five years of operation have been excluded from the current study, because they have not had time to prove their ability to remain in the industry. Firms that have survived beyond five years will have gained experience as a result of economic shocks. They may also have earned enough money to offset their initial capital outlay.

Other studies in the developed world link age to growth, experience and lower operating costs as older firms know how to source cheaper products and materials (Johnson 2007).

Longevity is uncharacteristic of SMEs because they do not survive very long on average (Johnson 2007; Frazer 2005; Quartey 2001). The longer a firm stays in business, however, the more likely it is to be able to accumulate income. A study of Australian family-based businesses indicates that there is a direct relationship between the age of a firm and their ability to source for finance to run their businesses (Romano 2001, cited in Gregory 2005).

This idea of using longevity of the firms as a measure of good performance will be applied in the current study and if successful used in Ghanaian context in the aim of helping SMEs to survive long enough to gain accumulated and retained earnings. For this reason, the current study will take into account the financial sources of SMEs in Ghana.

Goal approach measuring index uses both revenue and the number of employees to measure the performance of a business. This method is better suited to small businesses, as the majority of them do not stay in business for two or more years. The assumption is that the greater the number of people working in the organisation, the more work there is, which indicates increased productivity. When there is more work a firm employs more people and this reflects in the profit margin of the business. In this case, if a firm is employing more people it is indicative of good performance which is also a manifestation of increased revenue.

Entrepreneurs and investors do not usually expect profitability at the start-up stage, but would like to see a potential for growth. Profitability, however, does not portray the internal performance of firms, whilst size and age give an indication of survivability and performance (Orser 2000; Mohr 1994; Srinivasan 1994; Robinson 1994; Loscocco 1993; Davidsson 1991 and Haber 2005).

Headd (2003) claims that about two-thirds of SMEs survive two years, and that only half of all new enterprises survive beyond four years. He also purports that approximately 50% of the firms that close down are nevertheless successful at the time of closing.

8.2 Size

Acquaah (2005) asserts the importance of the size of an organisation in relation to its performance. In a study of firms in the manufacturing sector, he posits that if firms have more employees, they usually place a higher emphasis on efficiency and cost reduction as their major manufacturing priorities. In addition, firms with more employees are often larger and have the means to acquire the latest technologies which, in the long term, reduces the production costs. Firms with high investment in fixed assets have cost advantage and rely on technology to solve problems of efficiency. In addition, Rogerson (2001) states that a growth in numbers is a reflection of market demand.

Moreover, size can affect the ability of SMEs to access loans by lenders. Most lenders perceive SMEs as lacking the ability to pay back loans because of their limited number of income-generating activities (Abor 2009). Smaller firms are more likely to depend on their equity for capital generation than larger ones, and larger firms tend to rely on debt to finance their businesses.

In addition, firms with large tangible assets are preferable to firms with smaller assets because they can use their assets as collateral for loan. Larger firms are able to secure

loans with low interest rates, and costs often associated with adverse selection and moral hazard are lowered if they have collateral (Bradley 1984).

The smaller the firm, the more likely the firm owner will complain about lack of access to capital. The smaller SMEs may not get the required financial assistance and this may deny them of their ability to invest in their firms to reap more profit. It can hasten their death as they will not be able to generate operational capital to beef up their activities.

Size may be determined in two ways: based either on the financial or capital assets of a firm or on the number of people a firm employs. This must be taken into account when reading studies about firm size.

Larger companies have higher human capital and greater physical resources and as such are able to take advantage of economies of scale and at the same time benefit from a range of expertise amongst their staff members. These resources facilitate their development, whilst smaller firms are likely to develop more slowly. Moreover, large firms can use their physical assets as collateral in order to acquire loans in times of financial hardship. SMEs, on the other hand, rarely have collateral acceptable to banks (Bruderl (1992) and Headd (2003)).

Size and age have been predominantly used to measure the performance profitability and growth of businesses by many authors in academia. However, their assessments of how age and size influence on firms' performance vary, they are indeterminate or inconclusive. The next but closing chapter for project one is the summary of the literature reviewed for the study.

Chapter 9

Summary of Review

The review of related literature indicates age and size, human capital, ownership type, social capital, government context and sources of finance have the most significant impact, either positive or negative, on SME performance. This does, however, depend on the way in which previous researchers have used these variables in their projects. It also varies from one industry to another. While growth may be seen as a positive indicator of performance in labour-intensive businesses, for example, it is not very important in a capital-intensive or technologically related industry.

The review has highlighted the need to consider many factors when assessing the performance of an organisation, and has noted that the criteria used to measure performance may vary from one researcher to the other. As Masakure et al. (2008: 2753) assert, the complexity of different business situations makes it difficult to transfer theoretical and empirical findings from one industry to another. It is also important to consider the angle from which any research was conducted, and how conclusions were made.

The sources of finance for SMEs are quite varied. The majority of SMEs are financed by family, friends and personal savings, while the rest rely on credits from formal financial institutions (banks) and non-formal financial institutions (MFIs, credit unions, savings and loans companies, state-funded credit providers, NGOs and venture capitalists).

Social enterprises and social capital have also been emphasised in the literature review, because of the way in which they give benefits to their members. They help to alleviate poverty and grant members access to market information, trade secrets, credit and new customers.

The review also mentioned the Structural Adjustment Programme (SAP) introduced in Ghana in the 1980s to clean up state-owned enterprises (SOEs). It examined the impact of the SAP on SMEs as well as the Ghanaian economy.

The report highlights that majority of SMEs are owned by individuals or families (Mensah 2004; Makatiani 2008), whilst large organisations in Ghana are usually co-owned by a large number of people.

The skill levels of technically educated people in Ghana have been seen to be quite low in comparison with other African countries. It seems that educated SME owners cope better with running a business than their uneducated counterparts because they are able to locate and make use of relevant information for their businesses. Unfortunately, there are few educated people in the manufacturing sector of Ghana, which has taken its toll on productivity in the sector (Bigsten 2000). The review mentioned Empretec, Ghana's initiative in training Ghanaian entrepreneurs, which is now also operating in several other African countries.

Furthermore, the review has shown that size and age affect an organisation's performance profitability. Size may be determined in terms either of financial or capital assets or of the number of employees. The use of size as a measurement of performance has received some criticism, however, on the grounds that some firms (especially knowledge-based ones, such as IT) do not need capital assets or a large number of employees in order to succeed. Newly established firms have high exit rates.

According to Johnson (2007: 5), researchers have not done much to emphasise the impact of SME structure on performance profitability. It is for this reason that the researcher focuses his objective on re-examining the determinants of SME performance profitability and growth, within the context of the manufacturing and hospitality sectors in Ghana.

Thematic Literature Review

Variable Data Source	Finance	Ownership Type	Human Capital	Age and Size	Social Capital	Performance and Profitability
Frazer (2005)						
Steele et al. (1997)						
Overa (2006)						
Masakure et al. (2008)						
Rhyne and Otero (1992)						
Rogerson (2001)						
Barr (2000)						
Selby (2008)						
Tweneboah-Boateng (2008)						
Par Panapress (2008)						
Abor and Biekpe (2009)						
Ampah (2009)						
Cole (2009)						
The World Bank (1994)						
Madilo (2009)						
Makatiani (2008)						
UN Conference (2003)						
Mensah (2004)						
Aryeetey (1996)						
Frempong (2008)						
Chong (2008)						
Cook (2001)						
Radford (2009)						
Bourdieu and Wacquant (1992)						
Field (2003)						
Amin (1994)						
Kraus (2002)						
Lyon (2003)						

**Re-examining the Determinants of Small- and Medium-sized Enterprises'
Performance Profitability and Growth: A Case of Ghana**

Philip Arthur

**This second project (Methodology) is submitted as part of the
requirements of the Degree of Doctor of Business Administration**

Chapter One

Introduction

The work is divided into four main chapters. The first chapter takes the reader through the objectives and research questions of the project, the qualitative nature of the study and how academically rigorous the work is. Further information is provided about the population, participants, population representation and sampling techniques in Chapter two. Chapter three discusses the design of the study and the processes of data collection in detail, and Chapter four chronicles the challenges encountered by the researcher while he was in Ghana doing the interviews. This will conclude with a brief summary.

The literature for the study was introduced in the previous project (Project One - Literature Review). This included an overview of the objectives of the study and how these informed the characteristics of the data collection methods. It also highlighted the prominent theories among the literature and showed how these contributed to the methodological approach of the work.

1.1 Objectives and Detailed Research Questions of the Study

There is one main general objective for the study and two further ones.

The main objective is:

- To find out the conditions that enable SMEs in Ghana to both establish themselves and develop sustainably

The two secondary research objectives are:

- To understand the specific policies, economic and social criteria which influence SMEs in Ghana;
- To highlight the specific issues which influence the ability of SMEs to perform profitably and grow sustainably in Ghana.

Seven specific research questions are formulated as a framework for the study:

Q.1. Does age impact on the performance of an SME?

Q.2. What role does size play in the survivability of a firm?

Q.3. Does human capital benefit a firm's performance?

Q.4. Is ownership type a determining factor for business success?

Q.5. How do relationships with other firms affect the profitability of a company?

Q.6. What influence do Ghanaian Government policies have on the activities of SMEs?

Q.7. To what extent do friends, family, religious organisations, political groups, professional organisations and social networks contribute to the development of SMEs?

These research questions provided a framework within which to seek a deeper understanding of the conditions necessary for SMEs to develop sustainably in Ghana.

1.2 Characteristics of the Study

The study is primarily a qualitative one, with emphasis on the main challenges facing the hospitality and manufacturing sectors of Ghana. According to the generally accepted definition, qualitative research involves the generation of data with less use of numbers or without the use of numbers, wherein the researcher does not base explanations of the study findings on statistics (Tesch 1990, cited in Wolfe et al. 1993: 637). Instead, a qualitative researcher is interested in the richness of the information provided by the study.

The approach taken is pre-determined by the research questions and objectives of the study; as stated by Creswell et al. (2007: 238), the methodological strategy of a study is largely informed by the research questions that the researcher has proposed and seeks to answer. Therefore the current study has used the descriptive approach, written information or well-documented reports, in order to gather information about the manufacturing and hospitality sectors of Ghana. This information will be gained by contacting specific companies within these sectors.

The current study also uses the grounded theory approach which, although initially met with scepticism by some researchers, is now commonly used in qualitative research in order to unearth problems which other research methods are unable to solve (Onwuegbuzie and Leech 2006: 482). The study is based on information gleaned from the analysis of qualitative data collected during fieldwork conducted in June 2010, and the theoretical propositions are based on the discovery of theory from the data (Glaser and Strauss 1968, cited in Turner 1981: 225).

Moreover, the grounded theory gives the interviewee the chance to fall back on or get feedback from or call for the results of the study from his/her interviewer, since the

results of the study are more applicable to their situation. In Turner's study of qualitative data (1981: 240), this is described as closeness of fit. Turner (1981: 242) states that good research does not come into existence from a vacuum, but as a result of the researcher being able to ask the right questions in order to form theories that are relevant to the situations under scrutiny. Theories developed as a result of fieldwork are more appropriate than pre-formed theories because they are based on the researcher's work on the substantive area of study. This encourages the researcher to make full use of personal intelligence in seeking answers to his questions (Turner 1981: 225), to use his/her initiative and to develop innovative skills. The grounded theory approach also introduces an element of creativity, since it involves the use of the researcher's imagination, combined with analysis of the data, in order to make better judgement about the scenario of the participants. This is essential since overly relying on other researchers' work and theories can affect the quality of the researcher's current work and may introduce mistakes to untested scenarios.

In addition to the grounded theory approach, the current study used sampling method. There is a clear difference between the census and sampling methods of data collection, and each has its own limitations. While the census method gathers data from the entire population, sampling method collects data from a small section of the population. The latter takes less time to conduct, and reduces requirements for participants (busy SME owners/managers). It costs less to conduct and ensures better data monitoring and quality control because of the small number of participants. In the current study, the researcher limited his work to a few participants, which will in turn limit the study's influence on similar studies because it does not cover the entire SME population (Frazer, 2005: 592).

The study is a cross-sectional one. It is carried out in a short and specific time frame unlike a longitudinal study where it takes a lengthy period of time to gather data for analysis. In a study of formal and informal financial institutions by Steel et al. (1991: 819), retrospective information was based on changes occurring over two years. Steel et al. analysed comparable data for the two years in order to make their projections. However, the nature of the current doctoral project and the timeline for completion of the thesis do not enable the researcher to spend this length of time in the field.

The study aims to unearth as much rich and in-depth information as possible, and this can be best achieved by the use of interview to explore and gain insight into the activities of the organisations participating in the study. Interviews were conducted in

informal conversations, using English and also the local dialect where needed in order to clarify a point. They each lasted for about an hour on average.

1.3 Why qualitative research in this study?

Qualitative research is more about the “hows” and “whys” of the behaviour of participants. It unearths things which quantitative researchers will not come across in their findings, but is more about the motives and procedures of participants. This is not to paint quantitative methods as inappropriate tools to gather information but qualitative methods could serve as check and balances in the research community to rectify discrepancies of data gathering. It also gives the participants a more detailed perspective about themselves, in case they want to fall on the outcome of the study. Qualitative research is more suitable for a smaller number of people, and addresses all of the aspects of the variables, which leads to a better understanding of the research. Furthermore, the nature of qualitative research leaves room for innovation and flexibility, as it allows the researcher to use his/her creative skills in order to glean information from the participants. For instance, the researcher used examples from interview participants’ competitors to entice participants to clarify matters which are not properly addressed in their answers.

In the current study, the dynamic and ever-changing nature of the business environment called for a qualitative method of research (Ambert et al. 1995: 880). Qualitative research is ideal for addressing existing issues in a new way or for addressing new issues, as it gives room for more subjective interpretation of the results (Ambert et al. 1995: 884). In interview, for example, the researcher is able to direct the course of the interview, whilst the participant has the opportunity to correct the interviewer in the case of any miscommunication. This is not the case with quantitative methods, which are more numerical and lack the flexibility to adapt to new developments during fieldwork.

Since the researcher is interested in re-examining the determinants that influence performance profitability and growth of SMEs, he resorts to a more suitable qualitative method which meets the objectives and also enables him to acquire the right information he is seeking about the subjects of his study. Therefore, this study has used qualitative methods. Chapter 2 will go on to give detailed procedures used to collect the data for this work.

Chapter Two

Population and the Participants in the Study

This study focuses on SMEs in Ghana, with particular reference to the hospitality and manufacturing industries in the Ashanti Region of Ghana. The researcher based his selection of study location on geographic stratification of the country into areas with heavy SMEs activities. The reasons for choosing this sector were firstly the increasing growth of the hospitality sector, and secondly the concern of the Ghanaian Government to develop the manufacturing industry in order to reduce the country's dependence on the developed world. Manufacturing is third on its list of economic activities, and hospitality is left behind in spite of the huge turnout of foreigners to watch cultural activities and to visit the region's tourist sites¹³.

The Ashanti Region was chosen because of the important role it plays in the socio-economic development of the country. It is centrally located, and this facilitates its position as a proximity zone to all regions and also, a melting pot of Ghana, second only to the Greater Accra Region. It is bordered by four regions (the Central, Eastern and Western Regions as well as Brong Ahafo), and as a result has easy access to all other regions in Ghana. It therefore has the advantage of proximity to the mineral resources of the other regions, and has become the pivot around which all economic activities in Ghana revolve¹⁴.

Furthermore, the number of visitors, particularly foreign ones, visiting the Ashanti region for sightseeing, is higher than in many of the other regions of the country because of its rich traditions (festivals, funeral celebrations and colourful clothing) and attractions like Lake Bosomtwe (the biggest natural lake in Ghana), Ahwia Wood Crafting Centre, Bonwire Kente Weaving Centre, its museums (both traditional and military), and its gold-mining company (Ashanti Goldfields). It is the most populous and one of the fastest growing regions and, being home to about 14% of the population of Ghana¹⁵, has a large economic market. Interestingly, it is the only region in Ghana where

¹³ www.travel-to-discover-ghana.com/ashanti-region.html (accessed on 20/07/2010)

¹⁴ www.modernghana.com/GhanaHome/regions/ashanti.asp? (accessed on 20/07/2010)

¹⁵ www.touringghana.com/regions/ashanti_region.asp (accessed on 20/07/2010)

all the natives speak one common language, Akan. The aforementioned reasons contribute to high visitors' use of hotels in the region.

Most of the employed inhabitants of the region work in the agricultural industry. Yet despite the region's huge indulgence in agricultural activities, it lacks the ability to turn its raw materials into finished products. Many of the inhabitants are entrepreneurs¹⁶, and there is a strong element of personal ambition in the region. The fact that the researcher's family operates a hospitality firm there influenced his decision to select the region, in order that his findings may be used to help the family business.

The basic or underlying criterion for selecting the participating firms was the number of years for which they have been established. As most SMEs fail before their fifth anniversary of operation (Quartey 2001; Aryeetey et al. 1994), the firms chosen for study had all been in operation for at least 5 years. Although some of the firms had been registered for less than five years, they were incorporated into the study where they were the offshoots/spinoffs of other businesses which were owned and run by the same proprietor and had been in existence for more than 5 years.

2.1 Profile of Participants

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
Age of SME	9	10	35	4	33	40
Education	Bachelor's Degree	Master's Degree	Bachelor's Degree	High School	Junior High School	Higher Education (Professional)
No. of Employees	34	55	75	30	30	20
Ownership Type	Family	Family	Partnership	Family	Sole Proprietor	Sole Proprietor
Position	Owner	Manager	Director	Owner	Owner	Accountant
Product	Service	Service	Soap	Service	Furniture	Books
Property Type	Owned	Owned	Owned	Owned	Owned	Owned
Sex	Male	Male	Male	Female	Male	Male

¹⁶ Utley, I. (2009), the essential guide to customs and culture: GHANA, London, Kuperard

There were six participants in the study. Three were from the manufacturing sector (making furniture, books, and soap), and the other three came from the hospitality industry (hotel sector). Participants in the interviews included three of the company owners (one from the manufacturing and two from the hospitality companies), a general manager, a director and an accountant. They were appointed by their respective company directors because of their ability, in-depth knowledge about their organisations, to give interviews, and by the researcher based on the questionnaire they had been supplied a week or two earlier. Owner-manager is used to refer to SME owners who run their own firms.

2.1.1 Representation

The qualitative method is usually not statistically representative of the participants; thus in order to overcome its statistically biased nature, the researcher made sure to use companies which were diverse in nature and scattered across different locations, but which had similar features to other firms in their locality. This ensured a wider coverage in order to make the study findings more representative of the region (Bromley 1986, cited in Ambert et al. 1995: 885).

The project uses a non-probability sampling technique to collect the data, as shall be discussed below. Of the non-probability sampling methods, the snowball technique seemed ideal for the study because of the nature of SMEs in Ghana. Thus far, there is no reliable data regarding the number of SMEs in Ghana, some of which are not registered and many of which are very mobile, which makes it very difficult to count them (Chronicle 2009).

This difficulty in accounting for the exact number of SMEs in Ghana presents potential problems for the researcher in terms of finding and contacting SMEs, and made it difficult to use probability sampling methods in the current project. As there is no official figure for the total number of SMEs in the country, it was difficult to obtain or get the desired sample size because some SMEs will be underrepresented in particular sectors while others will be overrepresented when the probability sampling method is used. For this reason, the researcher turned to various sampling techniques which have been elaborated below to advance his study.

2.2 Sampling Technique

Discovery-driven growth is a way of planning to grow that doesn't require a lot of analytical information at the outset. It recognizes that many of the data that you need to make decisions don't exist at the time that you have to make the decisions. It's a plan to learn.

Dr. Rita Gunther McGrath (2009), Columbia Business School

As stated above, it is not always possible to get data on the organisations the researcher wants to find out about. This is the case for the majority of SMEs in both the developed and developing world, including Ghana, since SMEs are noted for their poor record-keeping habits (Tagoe et al. 2005: 332). This influenced the methods the researcher chose; therefore, the data collection approach was quite a liberal one. The researcher adopted a flexible approach as the situation changes. The style of data collection becomes more liberal as the circumstance of the participants changes.

2.2.1 Purposive Sampling

The purposive sampling method is another method used within the study, since the groups were pre-defined based on the criteria of the researcher. The study targets SMEs operating in the hospitality and manufacturing sectors in the Ashanti Region of Ghana. The owners/managers and managers were the focal point of the interview process, as they were more able to provide the information required by the researcher. The proportionality of the sample does not form the main part of the researcher's concern, so far as the method being used will help the researcher to obtain the data needed for the study.

Even though the general managers, who were not owners themselves, would not have as much knowledge as the owners about the initial sources of funding for the organisation, they could provide a glimpse of where the initial capital for the business came from. There was the assumption that the managers could have some perspectives about the idea behind the setting up of the business as they were given enough time (questions were given to the participants weeks or days before the actual interview date) by the researcher to gather information about their organisations and look for appropriate and truthful answers to the interview questions they had been given beforehand.

2.2.2 Judgemental Sampling

The flexibility of qualitative research makes it more innovative and also more able to bring out the hidden reality on the ground. For instance, the researcher had free hand to use his judgement in selecting the participants for interview that he thought would be able to provide the most information. This is called judgemental sampling.

2.2.3 Snowball Technique

The current study uses the snowball sampling technique because of the limited time available in which to conduct the research and the network gap between the researcher and the owners/managers of the SMEs in Ghana.

The referral method, which is the main domain of the snowball technique, is well suited to the study because of its ability to identify the most suitable interviewees. Since the Registrar General's list of registered companies fails to account for all of the SMEs in the country, which makes it impossible for the researcher to identify all potential SMEs, the referral approach is ideal because the interviewees can easily point the researcher to other potential interviewees. This approach facilitates the interview process and helps the researcher to obtain the best and suitable participants for the study.

Furthermore, the snowball method is effective in reducing the cost of collecting data because it allows the removal of unwanted interviewees from the list of interviewees. The referee, who is a friend of the participants, does the background work well in advance of the scheduled interview dates, which ensures that the researcher/interviewer speaks to the right people.

According to Brymer (2008), it is through connection with the elite that one can gain access to other elite groups or individuals of the elite. Thus Brymer emphasises the need to get to know someone who can facilitate the researcher's access to other people of important positions. The elite in this context are affluent people who are either business contacts or family members of the interviewees. The researcher decided to use such a strategy in order to better his chances of contacting people with detailed information about the running of each organisation, from the start-up stage to the present stage (at the time the interview was conducted). This was invaluable for the current study since some of the variables, such as sources of funding and networking, are very complex and often known only to someone like the managing director or owner of the company. Employees lower down in the hierarchy may not have enough information to provide the answers needed, hence the use of the 'elite' to gain information for the study.

The researcher initially contacted a board member of the management of a microfinance organisation, SINAPI ABA TRUST, to ask him to contact small- and medium-sized enterprise owners or managers in order to inform them about the proposed interviews to be conducted by the researcher. This was because the board member had the contact details of the SMEs, since he was regularly dealing with them in providing them with loans. The aim of this was to facilitate the researcher's access to the interviewees.

Unfortunately, this arrangement became inconvenient for the board member of SINAPI ABA Trust, who was very busy at the time of the researcher's visit. Thus the researcher made use of another influential contact, who was connected to a network of people working in the hospitality and manufacturing sectors in Ashanti Region. The would-be participants were then contacted by this contact person and the purpose for the researcher's visit to their workplace was thoroughly explained. The researcher arranged for the contact person to get in touch with as many people as possible, in case some of the participants had a change of mind and withdrew from the process.

There is an element of bias introduced to the data collection method by snowball sampling. For instance, there was no representative technique used to collect the data, as the researcher was always overly dependent on the willingness of participants to be interviewed. Access to interview participants was quite difficult and the few willing ones too were mostly unavailable. Because of time constraints on the researcher's side he had to settle for less than anticipated number of participants he had initially planned to interview.

2.3 Preparation of Contact Person

The contact person was given full information about the purpose of the study and the way in which the research would be carried out. In addition, the period during which the fieldwork would be carried out was clearly communicated to him so that he could schedule his programme of activities to meet the deadline. For each of the companies that the researcher visited, the contact person went with him in order to introduce him to the participants. He also gave the researcher essential information about the companies/participants, such as the uneasiness of some managers/owners with regard giving information about their business activities (see also Bailey and Burch 2002: 206-207). Furthermore, the contact person knew the locations of the participating companies, which also made finding the firms quite easy. To avoid interruption to the flow of the interview, the contact person stayed out of most of the interviews after the

initial introduction of the project and ice-breaker. This approach eased the tension between the interviewee and the researcher. It also encouraged openness on the part of the interviewee.

The chapter provided an in-depth discussion of the various methodological sampling techniques used in the entire work. It gave an insight into interview styles, the use of contact person by the researcher and how beneficial that was. The design of the study is found in Chapter 3 which follows.

Chapter Three

Design of the Study

The research design is a reflexive process which operates in every stage of the project. Qualitative research requires a broader and less restrictive design than quantitative research (Hammersley and Atkinson 1995: 24), and allows more flexibility to be built into the project by the researcher. The sections that follow inform the reader about the carefully planned data gathering route(s) the researcher has followed to collect his data for the work.

3.1 Pre-specification of Data

Polkinghorne (1989) suggests that, for the purposes of qualitative research, interviewing five to twenty-five individuals is ideal as it is enough for the researcher or interviewer to gain experiential data. Before conducting the current study, the researcher had already gained some insightful information from the data of other studies (Creswell 1998; Mole 2002), and so he settled on a small number of participants. For instance, Mole (2002) settled on less personal business advisors than he initially thought when he was studying the impact of their pieces of advice on SMEs. It was based on how relevant they were to his study. It was originally anticipated that the researcher would interview ten participants, but only six were willing to participate. In this case, the advantage of the qualitative method is that it imposes no absolute figures on the researcher in terms of the number of participants he has to have before it will be deemed a rigorous and academic piece of work.

Data collection methods are determined in advance of the actual collection, and there is scope to vary or modify the pre-existing plans as the actual data collection proceeds and the understanding of the researcher moves in synch with the situation in the field (Bradley 1993: 439). In the current study, the researcher had to reorganise himself when his initial expectations were not met in the field. Thus the field situation had an enormous impact on the approach used in data collection.

3.2 Piloting Study

According to Bailey and Burch (2002: 134), a pilot study starts informally from the researcher's interaction with others, without him necessarily making notes or collecting data from these encounters. The researcher had initially planned to pilot test the interview questions on some Ghanaian students in Durham University, but he was unable to go ahead because the potential participants were too busy preparing for their

end of programme examinations. Thus the interview was piloted upon the arrival of the researcher in Ghana, on two Ghanaians from the manufacturing and hospitality sectors. Prior to the piloting, the researcher thoroughly consulted some academic colleagues from Ghana who were able to give him more insight into the Ghanaian culture and the questions that were likely to enable him to obtain the data he was looking for. There was also critical input from the research supervisor on the suitability of the questions and suggestions for how to get the best out of the interviewees. The actual piloting of the interview on other SMEs helped the researcher to clarify the interview questions, to restructure them and to do away with redundant ones.

The protocol, i.e. the set of detailed instructions to be followed by the researcher, was drawn up after he had gathered some informal ideas about the actual process of the study. The protocol helps the researcher to ask the right sort of questions and to determine the length of time it will take to complete an interview. It also allows the researcher/interviewer to know when it is time to finish the interview, and gives clues as to the behaviour of the participants and their attitude towards lengthy interviews (Bailey and Burch 2002). As an example, continual postponement of scheduled interview appointments indicated an unwillingness to participate in the study. Thus the protocol highlighted potential challenges, and in this study the researcher felt it necessary to draw up a second plan which would enable him to overcome such challenges should they arise. For instance, the researcher ignored hesitant participants and moved on to the willing ones to save time and money, transport and agent cost.

The pilot study made it clear that the use of tape recording would prevent the researcher from getting the best information from the participants. One of the participants in particular expressed unease about the use of a tape recorder, and told the researcher that people would not want their words to be tape-recorded for fear of them (their words) being used against them (the participants) in the future. When the researcher asked why this would be a problem, if they were telling the truth, the participant cited the example of an undercover reporter who had conducted similar interviews with business executives and then played them on the radio, causing serious embarrassment among those affected. The fear of the unknown made the participants quite sceptical about being tape-recorded in the interview. All participants raised serious objections to the use of voice recording machine in the interviews.

Furthermore, the piloting of the studies eliminated ambiguities in the way that questions were posed, and sentences were reframed so that the interviewees could

understand them better. The feedback, and subsequent rephrasing of the questions, improved the reliability of the information the researcher was trying to collect (Bailey and Burch 2002). Thus the pilot study was one of the ways through which the reliability of the qualitative interview research was improved.

When the normal postal system is being used to collect data, probability sampling for SMEs in Ghana is very unreliable and likely to give false information for two main reasons. Firstly, the postal system in Ghana is slow and unreliable, and thus the researcher cannot guarantee the safe delivery of the questionnaires. Secondly, there is no proper framework for the researcher to draw from. For this reason, the researcher abandoned plans to use this list in order to select SMEs for the study (Chronicle 2009).

The researcher determined to find out which factors serve as catalysts for the growth of SMEs. He resorted to open questions that would encourage the participants to give more information about their organisations. He avoided closed questions which do not encourage open dialogue and tend to limit the amount of information the researcher can glean from the participants (Bryman and Bell 2007).

Some questions are of a general nature and are applicable to both of the sectors, whilst other questions are industry specific or specifically relevant to each sector. For instance, the hospitality sector does not have a distribution network so it is not necessary to direct questions about this to the participant. Many practices have emerged to ensure the trustworthiness of qualitative studies. These include the semi-structured and structured interviewing that have become the hallmark of good inquiry in a complex real world situation.

Bradley (1993: 432) claims that it is fundamental for the researcher to understand the link between theory and practice. This concept has driven the researcher's enquiry in an area where his practical experience can be linked to academic theories relevant to the hospitality and manufacturing sectors. It also adds strength to the researcher's planned approach to the study.

Furthermore, research is more effective when carried out in an industry in which the researcher has some sort of involvement, as is the case in this study. This is because concepts can be grasped more quickly in a field when the researcher already has first-hand experience, and when he/she is informed about the research tradition in that particular field (Bradley 1993: 432).

The variability of the qualitative research process helps to pre-determine the structure of the approach to the study. As suggested by Bradley (1993: 434), the flexibility that qualitative research allows has a large impact on the research process. Generalisations and fixed regularities have no place in qualitative research as it is descriptive in nature, allowing more room for the interpretation of ideas and encouraging a deeper or more intrusive analysis of situations. This can be contrasted with quantitative research, which is more focussed on numerical data and more rigid in its analysis. Indeed, the goals of qualitative research differ from those of quantitative research. While the former requires an understanding of the reason behind a concept or practice, the latter is focussed on the numerical measurement of that concept or practice.

As stated in the objectives of the study, the researcher is interested in the “how?” and “why?” of the hospitality and manufacturing industries in Ghana. An understanding of the processes in the chosen sectors will be communicated in words rather than in numbers, which will be more engaging for readers who wish to understand why certain things occur in their sector. Description is the main focus of a qualitative researcher, and thus descriptive analysis has been employed in the current study, in order to help the researcher to gain as much information as possible about the factors affecting SMEs. In interview, the descriptive approach will help the owners/managers of the SMEs to thoroughly express their views. Furthermore, the researcher will be able to seek clarification on unclear answers and unanswered questions (Sekaran, 2003).

3.3 One-shot or Cross-sectional Study

The data were collected over a period of one to two weeks, with participants being given a single opportunity to answer the questions raised in the study. This approach means that the interviewer has no chance to seek further clarification or in-depth information about the organisations. However, cross-sectional study is the one of the most effective and efficient methods in terms of time and cost, as the researcher has already completed background checks on the sort of information he or she is looking for.

3.4 Dealing with Interference during Interviews

To avoid disruption of either the interview or the activities of the organisation, the researcher decided to hold the interviews in a quiet place, away from the daily operations of the companies. The suggested ideal time for the interview would be during the owner/manager's break time as this would allow sufficient, uninterrupted time to deal with the questions. At this point too, there is less likelihood of distraction

by work-related issues and a better chance of getting the full attention and commitment of the participants.

Communicative validity is achieved through the repeated clarification of a participant's answers by the researcher in order to make sure that the right information is written down. Thus the initial plan was for the researcher to set aside a week to revisit the participants if he found any discrepancies in the answers. Although it would have been the best way to ensure communicative validity in the work, this was not possible in practice, due to the challenges (unwillingness and constant absconding of managers and owners after appointments have been scheduled) that the researcher encountered in the field with prospective participants.

3.5 Face-to-Face Interview

Despite the inherent disadvantages of the face-to-face interview, such as the amount of time and money expended on reaching the interviewees and on training resources¹⁷, it is the preferred approach in this study because of its small sample size and because the study is not on a national scale. In addition, the face-to-face interview allows the interviewer to ask the right questions and get the right answers, and the interviewee to seek clarification where needed. In situations where the interviewee may be tempted to become defensive in response to particular questions, the interviewer has the opportunity to ask more open questions that will encourage them to elaborate further on the issues. The researcher creates scenarios which are applicable to interviewees' situations to prompt them to say more.

Tomkins and Groves (1983) claim that interviewing participants at their places of work helps the researcher to gain more information known only to the owner/managers, which brings the researcher closer to the realities of the situations he is investigating. Tomkins and Groves also posit that workplace interviews help to fulfil the requirement for an undisturbed interview setting. On-site interviewing allows the participants to go about their daily supervising activities without having to think about losing any of their precious time because of the interview. Furthermore, the researcher benefits from the opportunity to observe on-site activities. In addition, an on-site interview helps the researcher to sift through important and unimportant issues while the interview is

¹⁷ The researcher accessed training on the use of one of the computer-assisted qualitative data analysis software (CAQDAS) and used NVivo software for data analysis.

taking place. He could easily seek clarification from the participants on matters important to the objectives of the study.

3.6 Ethical Considerations and Access to Data held by Interviewer/Researcher

In each interview conducted by the researcher, his first job was to introduce himself to the participants. The aim of this was to create a calm environment for the participants and to build their trust in the researcher. In addition, the researcher reiterated to the participants the importance for the thesis of their participation in the interview, and how beneficial it was also to themselves, as well as for government policies, parliamentarians and other sponsoring agencies of SMEs in Ghana. Discussions centred on how the work would address their problems and relay them to the government if it wanted to embark on development projects in their sectors. .

There was a consistent emphasis on the anonymity of the participants, and initials instead of full names were used in order to disguise the identity of the participants. This was important to guarantee their safety and to alleviate any fears of reprisal from agents who might read the project (Tomkins and Groves 1983). The main concern was to assure them that it was not a government-sponsored project but that it was for academic purposes only. The researcher reassured the participants that he did not need their names, although some participants voluntarily gave him their business cards after the interviews.

For every participant, the researcher took extensive notes because of their unwillingness to have the conversations tape-recorded. Upon completion, the interview notes were transcribed and emailed to the participants for their feedback. The researcher waited for about four weeks to hear from the participants before starting the actual analysis of the interview. This was modelled after Tomkins and Groves (1983), who followed a similar process in their study, in cases where the participants turned down tape-recording. The researcher also gave the participants handwritten notes so that they could read what he had written about their company and the answers that they had given, in order that they may make sure that they had not been misrepresented. He also offered to email them the respective word-processed documents of individual interviews. Respondents were also given the opportunity to request the final version of the thesis if they wished.

At the start of every interview, the participants were clearly told that they could opt out, if they so wished, without needing to give a reason. The interview was free from any

kind of imposition of the researcher's will on the participants, who volunteered to do it after the ethical issues had been explained. This approach encouraged the active participation of the respondents as they felt that they were in control of the interview and, therefore, showed more willingness to give truthful answers. It also encouraged the participants to spend more time with the researcher as they realised the benefits they were more likely to derive from the study.

Furthermore, the researcher did not resort to hierarchical relationships but favoured democratic consultation in his dealings with participants. The researcher created a rapport that was aimed at calming the nerves of the participants, increasing their confidence and creating a friendly environment. This rapport also helped the researcher to push for more information and to insist on accuracy when the need arose.

3.7 Data analysis

According to Strauss and Corbin (1998), data analysis in grounded theory has three stages in its coding process. These stages are: open, axial and selective. The initial process is the transcription of the interviews, and involves sentence-by-sentence analysis of the data (open analysis). Here important words which crop up in all or several of the respondents' answers to each question are highlighted.

This is followed by the axial stage of the analysis, where the data is categorised and sub-categorised into the different types of response. The categorisations are based on similarities and connections in the open coding aspect of the analysis (Strauss and Corbin 1990: 96), and are then refined and regrouped based on the identification of issues found in the open coding.

The process continues this regrouping and reformulation until the categories accord with the aims and objectives of the research and can form the determinants of the independent variables.

The researcher was not overly concerned with or did not predetermine the number of categories and sub-categories for the study, as they depended on the success of achieving the goals of the project as well as on the theoretical framework used (Strauss and Corbin, 1990). There was not room for every item of data collected in the fieldwork, as some of the data did not fall within any of the chosen categories or was outside the line of inquiry of the study. Data that was not suitable for the study was discarded. The underlying factor in determining which data is used is how well it meets the objectives of the study.

This process of eliminating unnecessary data at the stage of analysis is a weakening aspect of the use of grounded theory in research, as the data eliminated may be of importance in a different context. Eliminating data from the study may also cause some of the findings in the report to be inconclusive. On the other hand, however, the researcher may argue that the elimination of data does not affect the objectives of the study as long as those objectives are met.

3.8 Target Audience

This study is intended to be of use to hoteliers and manufacturers in Ghana. More importantly, the findings of the project are going to help the researcher to manage, assess and develop the family business, which is in the hospitality industry. Where participants expressed an interest in the project, the work will also be shared with them so that they can identify their weaknesses and see possible improvements they could implement in order that their company may have a greater impact in the hospitality and manufacturing markets.

Furthermore, the work is aimed at creditors, such as high street banks, microfinance organisations, savings and loans institutions and other unofficial lenders, who provide credit to hospitality and manufacturing firms. It also hopes to serve as a blueprint for the Ghanaian Government on matters relevant to successful operation in the manufacturing and hospitality industries. The researcher is planning to collaborate with the government on the use and implementation of findings from the work, in the aim of contributing to their efforts to develop and to improve the performance of the hospitality and manufacturing sectors in Ghana.

3.9 Significance of the Research

The most important aspect of the project will be that it provides a unique opportunity for the voiceless operators of the hospitality and manufacturing sectors to be heard. They are voiceless because of their fragmented nature which does not help in their attempt to present their views to the governing authorities. As the project serves as a mouthpiece for the industry players, they can use it to communicate the challenges of their sectors to financial organisations, as well as to the government and law-enforcing agencies. The findings from the work will be deemed more unbiased and authentic and likely to be accepted by the government. It will shortlist the needs of the industries and projects them to the government. It will also serve as a platform for the industries to reflect on their shortcomings as it unveils the findings to the participants.

In addition, the study will uncover assumptions about the operation of the two sectors, and will address the myths that people hold regarding the performance and challenges of the hospitality and manufacturing industries. It will serve as a basis for revitalising not only useful old ideas but accepting, adopting and confirming new ideas in the industries.

Finally, it will furnish new ground for theory-building, as the findings from the data may suggest new ideas. Other researchers may also take up from where the study ends and conduct further research into the performance profitability and growth of the manufacturing and hospitality sectors.

3.10 Limitations of the Research

Time was an essential limiting factor in this project, as there was a deadline to meet for this part of the doctoral thesis. There was limited time available to the researcher, as he had already bought and confirmed a return ticket to Ghana for the fieldwork. This is a self-funded project, so the researcher was doing his best not to incur additional unplanned but avoidable expenses. Since time and finance were his primary challenges, the researcher eliminated from the process participants who still showed no sign of interest in participating in the study after two or three visits. This affected the number of participants the researcher was able to study for the project, reducing it from ten to six.

There were some other frustrations encountered in the data collection that limited the effectiveness of the research. Some participants viewed the researcher with suspicion as a result of bad experiences in the past, such as undercover officers acting as researchers in order to gain information from them. This was the most challenging part of the fieldwork. The agent who went round with the researcher was very instrumental in disabusing the minds of the interviewees as he was more familiar with the situations in the country.

The researcher was surprised when one of the employees of a targeted company realised his frustration and volunteered to provide all the necessary information. The researcher attempted to visit the facility about three times and, in each case, the general manager rescheduled the appointment, and on one occasion left the premises when the researcher arrived. Yet on finally realising how disappointed the researcher was, one of the employees volunteered to be interviewed in the general manager's place. However, when the researcher tested him with some questions, he admitted that

the questions would be best answered by the unwilling manager. In this case, therefore, the interview could not go ahead.

At another facility, the general manager willingly gave the researcher an interview, even though he had not received the introductory letter and questionnaire. This was because the marketing manager had posed as the general manager when the letters were delivered. When he arrived at the reception on the interview day, the researcher was lucky enough to be shown the right general manager. During the data collection, it emerged that other researchers had experienced similar frustrations when trying to conduct interviews in the past.

The chapter has underlined the procedures the researcher has followed to arrive at the data he is using for the study. He does address the possible weaknesses of the methodical approach he has adopted. The next chapter assesses the challenges the researcher encountered while he was at the fieldwork stage of his thesis and how he plans to overcome similar challenges in future research activities.

Chapter Four

The Challenges

The chapter chronicles or journals in the challenges the researcher encountered while collecting his data in Ghana. It also contains the researcher's mistakes and learning experiences, generic matters and a quick summary of all the four chapters in methodology.

During the first week that the researcher spent in Ghana, he sent questionnaires and introductory letters to the general managers and owners of the participating firms, stating why he was conducting the interviews and explaining the ethical issues involved in the research. The aim of this was to reconfirm their willingness to do the interview following the earlier contacts made by the researcher's employed agent.

The researcher visited three firms in the hospitality industry to reconfirm the earlier contacts initiated by his agent on the first day of his data collection journey. On 8th June 2010 one of the interviewees (from furniture manufacturing firm) left his office before the researcher arrived, even though he had confirmed the appointment the previous day. As the interviewee was not available for interview, the researcher moved on to visit interviewees at other companies.

The researcher moved on to visit other firms that had been contacted by his agent. Two hospitality firms, however, took his contact details and promised to call him to schedule an interview appointment. They did not call him.

On the researcher's arrival at one of the hotels, the general manager declined to give a recorded interview. He claimed that he was more comfortable with giving interviews without being recorded, and the researcher had to accept his proposal for ethical reasons.

Thus the three participants from the hospitality industry included one hotel and two hospitality firms. The other three that came from the manufacturing sector were a soap maker, a furniture manufacturer and a printing house/book maker. For ethical and confidentiality reasons, the true identities of the participating organisations have been anonymised.

4.1 Hospitality A

The interviewee was reluctant to have the interview tape-recorded, because he was worried about what the researcher would use the tape for. Moreover, he also feared that the information could get to other players in the hotel industry. The conversation was therefore handwritten, which made the interview quite difficult, and also meant that the researcher missed out on the majority of the respondent's body language as he was unable to maintain eye contact with him whilst writing. It also took more time because the researcher had to keep asking for clarification and repetition of the answers in order to make sure that he wrote them all down. The respondent opened up more, however, when the interview had officially finished and was no longer being transcribed. At this point, he talked about the importance of networking in Ghanaian society and how much it had helped his business.

As the researcher stated in the approach to the study, Chapter 2, the agent who initially contacted the interviewee worked in a similar business, and he believed this heightened participants' fear. The good thing was that he (the interviewee) made it clear that they (hoteliers in general) held back some information and categorically told the researcher to ignore some of the important points that he made, for the sake of confidentiality.

4.2 Hospitality B

The owner of the hotel participating in the study was out of the country at the time of the researcher's arrival in Ghana to interview her. When she returned from her journey abroad, she delegated the interview to the general manager of the firm. She was pre-occupied with other business commitments. Yet the general manager said that he had not been told that the researcher would be visiting the facility for interviews at that time. However, he agreed to be interviewed despite numerous disruptions from other members of staff. The staff continually interrupted the interview with administrative and other management tasks. Although he had not previewed the questions, he was very willing to be interviewed, as he understood how frustrating it would otherwise be for the researcher after travelling miles to visit the company.

4.3 Manufacturing A - Soap Making

On arrival at the soap manufacturing firm, the researcher was directed to the person who was going to participate in the interview. This time it was not the owner/manager who volunteered, but one of the directors, who had insight into the operations of the organisation. He had already received a copy of the interview questions and the

accompanying introductory and ethical issues, and had had enough time to prepare for the interview. Nevertheless, there were many interruptions from staff during the interview, and a few telephone conversations, which made the interview take longer than the researcher had expected. The more the disruptions the more distorted the trend of thought of the interviewee. The researcher constantly had to draw his attention to the stage they were before he left.

4.4 Hospitality C

The researcher arrived at the scheduled time for the interview, but had to wait as the interviewee (owner) was busy. She then summoned the researcher into her personal office for the interview, but insisted not to be tape-recorded, just as the previous interviewees had emphasised. This interview suffered several interruptions, usually in the form of telephone calls. At one point, there was about 30 minutes of continuous phone interruption, and on one occasion, the interviewer had to leave the interview room in order that the interviewee may discuss private business matters. This situation worsened the apprehension of the researcher as he constantly had to repeat himself. The fluidity of the interview was affected and interconnection of ideas became poor.

4.5 Manufacturing B - Furniture Making

The owner of the furniture manufacturing firm missed the appointment three times. On one occasion, he left his office before the researcher arrived, even though he had scheduled an appointment with the interviewer. Therefore, the researcher had to leave and to visit again later. The day before the interview, the researcher checked the owner's availability in order to reschedule an interview. The third time too was an utter disappointment, as he had left his office before the interviewer arrived. The researcher then had to contact the participant's son in order to schedule a fourth appointment. One of the staff later volunteered to give an interview, but as the questions required information that he was unable to give, this was not possible. However, the researcher was not deterred from approaching the owner for the promised interview. He finally agreed, and the interview was conducted in his office while his son, who was his secretary, sat in. The interview was conducted in the local language for reasons of accuracy and fluency in communication, but this made transcription quite difficult as the researcher had to translate all of the respondent's words into English and later transcribe them. The translation of the interview speech was quite difficult as the researcher, at times, struggled to find the right English equivalents for the local words.

Some meanings might have lost in translation as the exact English equivalents were not available.

4.6 Manufacturing C - Printer/Bookmaker

The interview with manufacturing company C was well-organised. The researcher was introduced to the staff of the organisation, and then interviewed one of the senior staff. This member of staff had been appointed by the general manager and had pre-prepared his answers to the interview questions. Even though there were a few disturbances during the interview, these were not caused by the interviewee. Because of the nature of the business, the machines operating nearby were quite loud and at one point, the interviewee had to ask some of the staff to move further away from the interview room in order to reduce the noise level and to encourage the flow of the conversation. Listening was impaired by the noise made by the printing machines. The interviewee and the interviewer had to raise their voices. They repeated themselves many times in the course of the interview.

4.7 Generic Issues

In some instances, the interviewees had thought that the researcher might be a spy for the government or a potential competitor, so they were quite hostile to him. As a result, the researcher made numerous visits to firms who had agreed to give interviews but who later changed their minds. The most frustrating aspect of this was that they did not tell the researcher that they were no longer going to give interviews, but instead kept rescheduling the appointments. Other firms showed hostility towards the researcher because they misconstrued the idea of the research. Therefore, as a result of the unwillingness of some firms, the researcher could not get the number of participants that he had initially planned to interview.

Time and cost were also limiting factors to the research, as the researcher had limited time for the visit to Ghana and was also self-financing the project. Thus changes to the planned schedule constituted a loss of resources. For this reason, the researcher settled for the 6 willing participants.

The interviewees appeared to give high priority to the interview. Yet they were happy to be disrupted and used it as proof of their authority in the company, often leaving interviews partway through in order to give instructions to staff. It may also be the result of hiring non-skilled labour, which is cheap and easy to hire; this was an issue

running through all of the interviews the researcher held with participants. This could indicate a lack of trust in their cheap, professionally unqualified and poorly skilled staff.

The participants' perception of the researcher created a barrier which needed to be broken down, as they were unsure about the researcher's background and about how the information they provided would be used. If SMEs continue to be suspicious of researchers, the Government of Ghana will struggle to obtain reliable data on them. The researcher supposes that this has contributed to the limited information on SMEs in Ghana. There appears to be a lack of mistrust between the government departments (Ministries of Tourism and Trade and Investment) that are in charge of SMEs; in addition, the SMEs treat each other with suspicion.

The unanticipated problems that the researcher faced at the fieldwork hampered some of the progress of the work. For instance, the researcher had fewer participants than he expected and the cost of the study became so huge. He wasted too much time on the field. All the challenges he faced would educate the researcher to be able to adopt and make allowance to different and workable approaches to data collection in future studies.

4.8 Mistakes

The study is not completely mistake-proof as the researcher highlights some of the mistakes he made when he was collecting the data. This section accounts for how the researcher's fallible part showed in the study during the data gathering stage.

Firstly, the timing of the pilot study in England was wrong as it coincided with the period during which students at the University of Durham were preparing for their end-of-year assignments and examinations. They could therefore not be reached for the pilot study.

Secondly, the researcher could have given himself more time in the field in order to gain the trust of those participants who were unwilling or kept postponing the interviews scheduled.

Although the researcher had advanced knowledge of the culture of the country and had also been de-briefed about the participants, he may have been overly complacent because he believed that the "elite" contact (Brymer 2008) who introduced him to the participants would help change their attitude towards him, when in reality it was the other way round. The contact person operates the similar business as the interviewees.

4.9 The Way Forward in Future Interview Processes

In the field, there is always the possibility for changes that may affect the researcher's work. Perceptions, positions, decisions, activities and beliefs are constantly changing and have the potential to affect a researcher's work. Therefore the researcher should factor many things into his journey schedule.

In a future project, interviews would be conducted from a different angle altogether, in order to reduce the difficulties experienced in the interview process. If there were an opportunity to do another set of interviews in Ghana, the researcher would give priorities to time and trust. Firstly, the time period set aside for interviewing would be lengthened, as the researcher found that the duration of the fieldwork was too short despite adequate preparation before the start of the interviews. Devoting more time to the fieldwork could have increased the number of participants as there would have been more opportunity to gain their trust.

Trust was of essence in all of the situations the researcher encountered in the field. The researcher realised that participants would open up during interview if they felt that they could trust him. The first thing to do in a future project would therefore be to establish trust in order that the researcher be seen by the participants as a genuine researcher rather than a "spy" for one of the government agencies. The majority of the time dedicated to the interview process would be devoted to this establishment of trust.

In the current project, most of the interviewees felt more at ease in the local language, and this also helped the researcher to identify with the participants. The researcher could relate better with the interviewees in their mother tongue and this would increase the bonding and acceptance level between them. In a future project, the researcher would provide letters of introduction and the questionnaire in the local languages as well as in English, so that those who feel more comfortable reading in their local dialect may do so. The researcher would employ a professional translator to write the letter of introduction and the questionnaire in some of the local languages he is not proficient in. An additional benefit of this is that the use of the participants' local dialect might increase their trust in the interviewer as it would distinguish him from the government, whose documents are all written in English.

Another potential limitation of the research was the fact that the researcher's family is also a player in the hospitality industry. This may have led participants to believe that he

was collecting the information in order to better the family business, and may have made them unwilling to open up to him. The best way to circumvent this problem in future is to do the study in a region where the researcher's family's business connections are not known.

4.10 Summary

The objectives and research questions were the main determinants of the study design and the methodology for the data collection, and have been thoroughly explained in this report. The target population, the profile of the participants and the challenges of the research have been highlighted, with suggested improvements for future projects. The systematic approach of the study has been spelled out clearly, and any omissions in the study have been discussed.

The researcher did address his inadequacies in the attempt to collect data. Ethical matters that he encountered in the study were discussed. The organisation of the interviews and sampling techniques used in this study formed a concrete part of the project. The report justifies why the grounded theory formed an important aspect of the methodological approach.

Despite the challenges listed above, the researcher was able to gather adequate data, which will be transcribed and later analysed with computer-assisted qualitative data analysis software (Nvivo 8).

Appendices

27 May 2010

Dear Sir/Madam,

Small & Medium-sized Enterprises (SMEs) Study in Ashanti Region, Ghana

I am Philip Arthur, a final-year full-time Doctorate of Business Administration research student at Durham University in England, United Kingdom.

As part of the academic requirement for the award of Doctorate of Business Administration I am conducting interviews on the performance profitability and growth of Small and Medium-sized Enterprises in Ghana. I am to interview the owners/managers of hospitality and manufacturing firms in the SME sector in the Ashanti Region of Ghana.

I would be very grateful if you could participate in this study. As you have been previously contacted about the interview and have expressed your willingness to participate in the study, I have therefore included you in the list of interviewees for the study. I have also attached the questions I would like to ask you to this letter. It would be ideal if you could prepare your answers to these questions prior to the interview. If you have had a change of mind and do not wish to take part, please do let me know.

The information you provide will be used for academic purposes and, although it may be published, all interview participants will stay anonymous. Only the type, and not the name, of the organisation will be referred to (e.g. hospitality firm, manufacturing company). If you have any questions regarding your participation and how your company's information will be used, please contact Philip Arthur on XXXX XXXX XXXXXX or philip.arthur@durham.ac.uk.

Yours faithfully,

Philip Arthur.

27 May 2010

Dear Sir/Madam,

Small & Medium-sized Enterprises (SMEs) Study in Ashanti Region, Ghana

I am Philip Arthur, a final-year full-time Doctorate of Business Administration research student at Durham University in England, United Kingdom.

As part of the academic requirement for the award of Doctorate of Business Administration I am conducting an interview on the performance profitability and growth of Small and Medium-sized Enterprises in Ghana. I am to interview owners/managers of hospitality and manufacturing firms in the SME sector in the Ashanti Region of Ghana.

I would be very grateful if you could participate in the study. The questions I would like to ask you are attached to this letter. As you might have been contacted earlier by someone about the interview and you expressed your willingness to participate in the study, I have therefore factored you into the list of interviewees for the study. It would be ideal if you could make prepared answers to the questions for the interview. If you have had a change of mind and do not wish to take part, please do not hesitate to tell me.

The information you provide me will be used for academic purposes and may be published, but all interview participants will stay anonymous and only the type of organisation will be referred to (e.g. hospitality firm, manufacturing company). If you have any questions regarding your participation and how your company's information will be used, please contact Philip Arthur on XXXXXXXXXXXX or philip.arthur@durham.ac.uk.

Yours faithfully,

Philip Arthur.

Figure 2 Social Capital Interview Questions

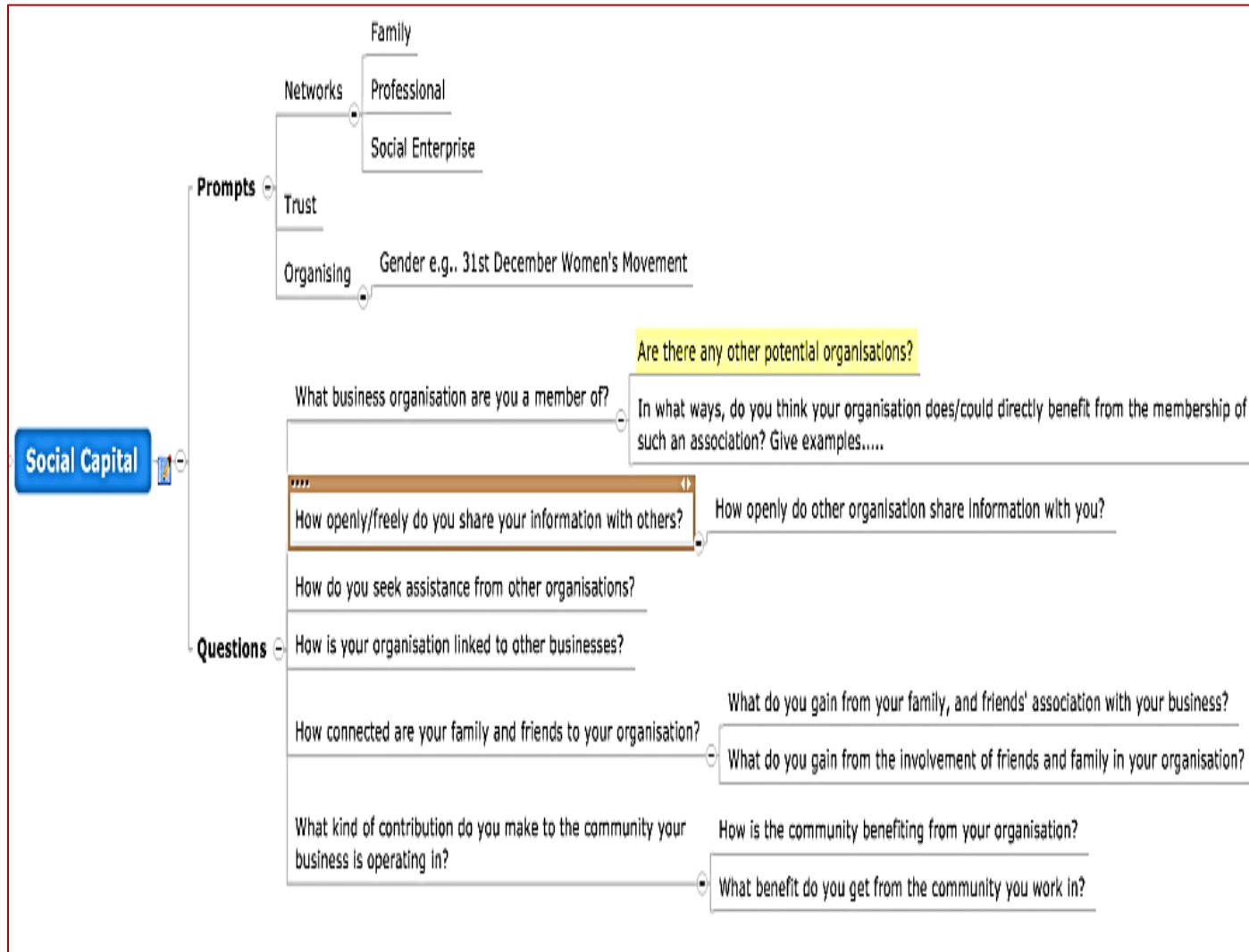


Figure 3 Human Capital Interview Questions

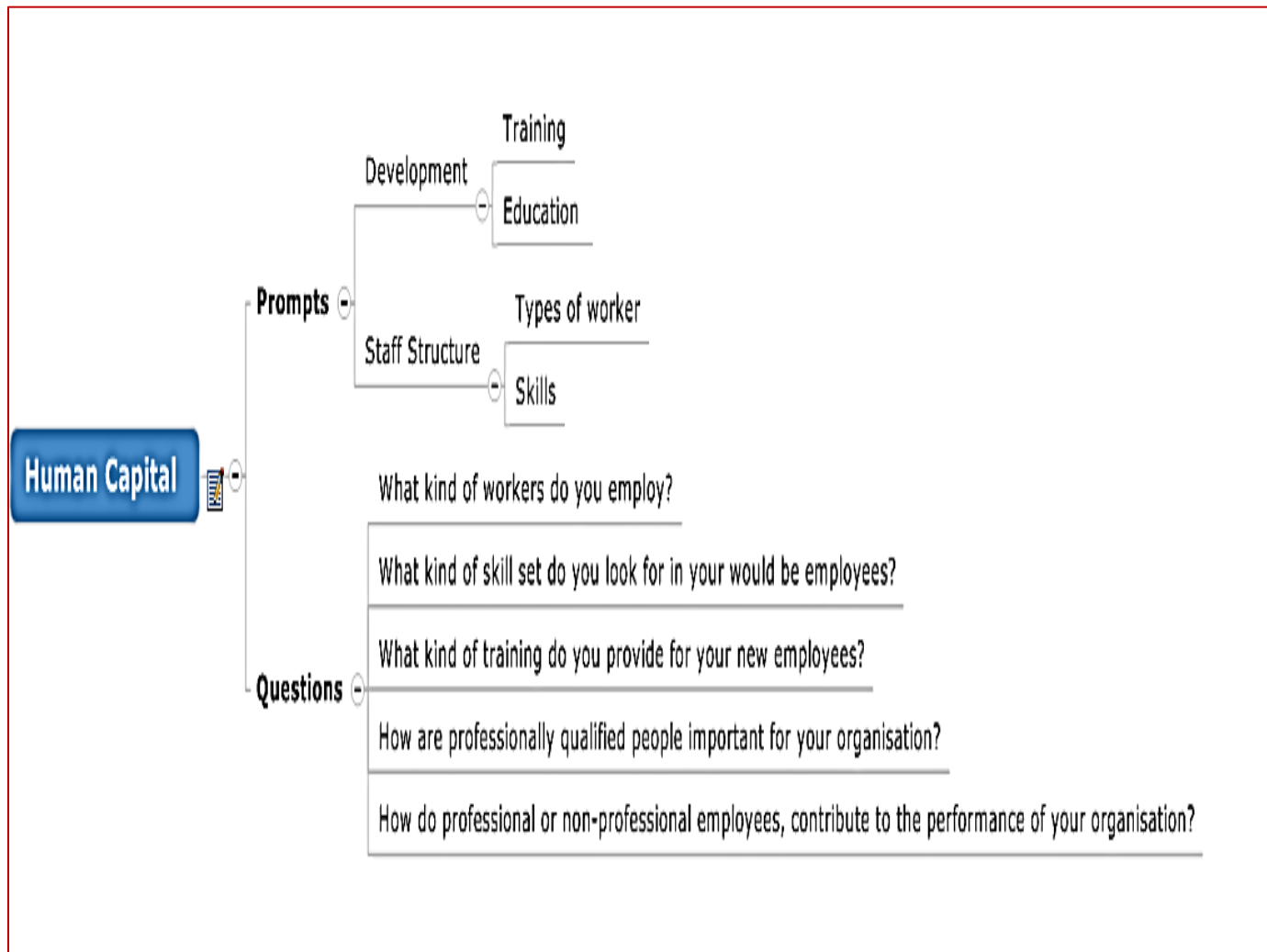


Figure 4 Sources of Finance Interview Questions

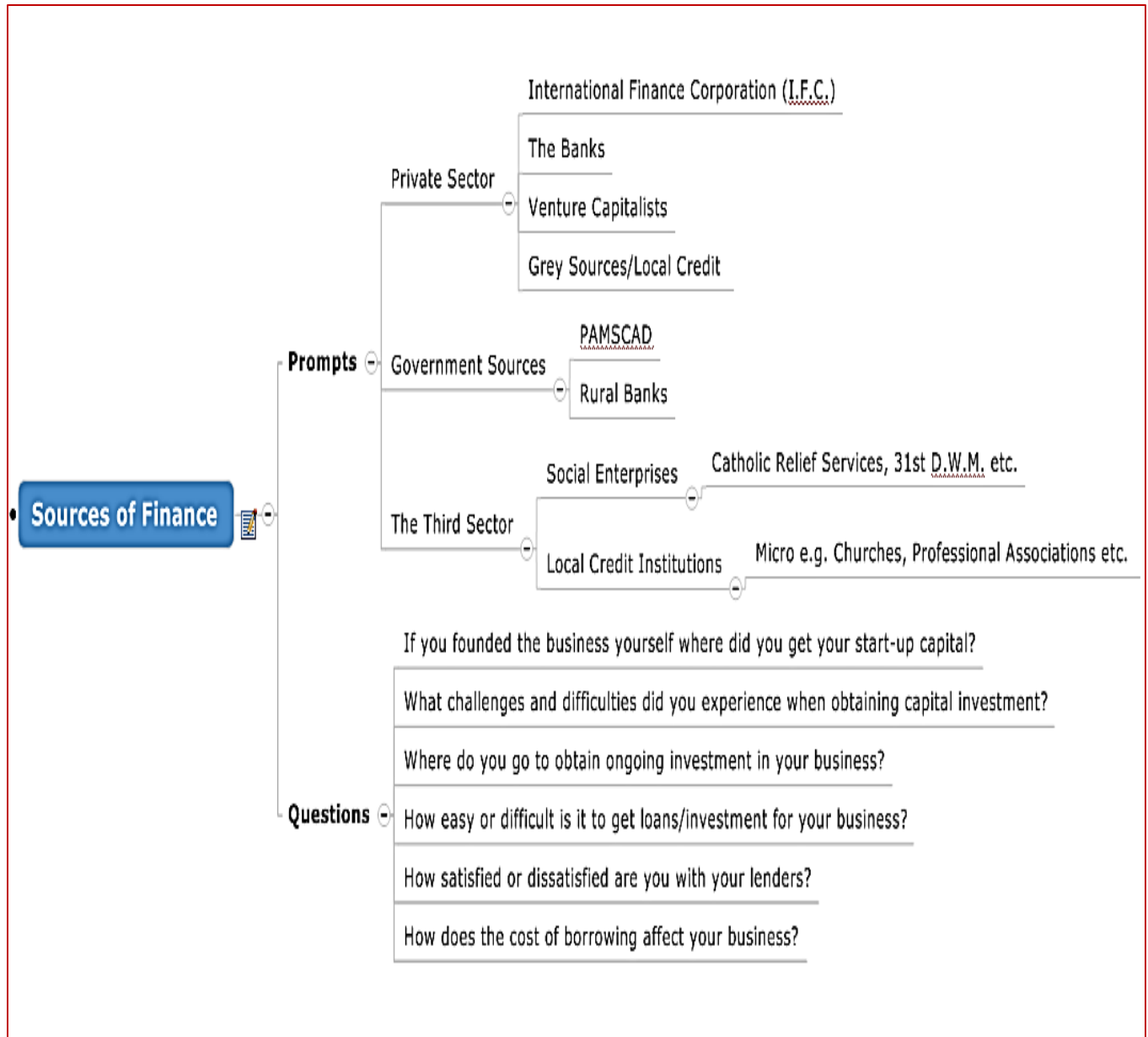


Figure 5 Business Ownership and Model Interview Questions

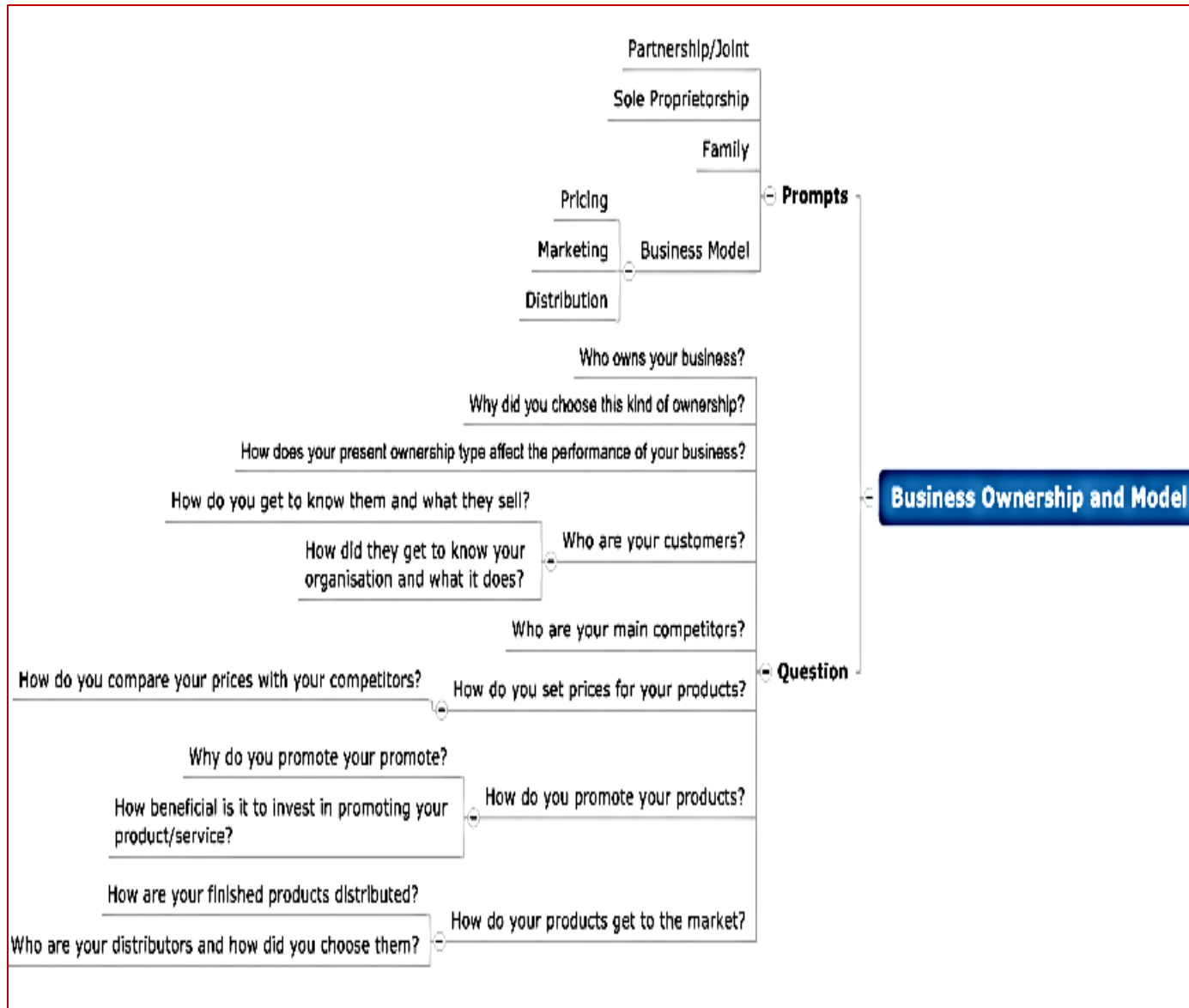


Figure 6 Government Context Interview Questions

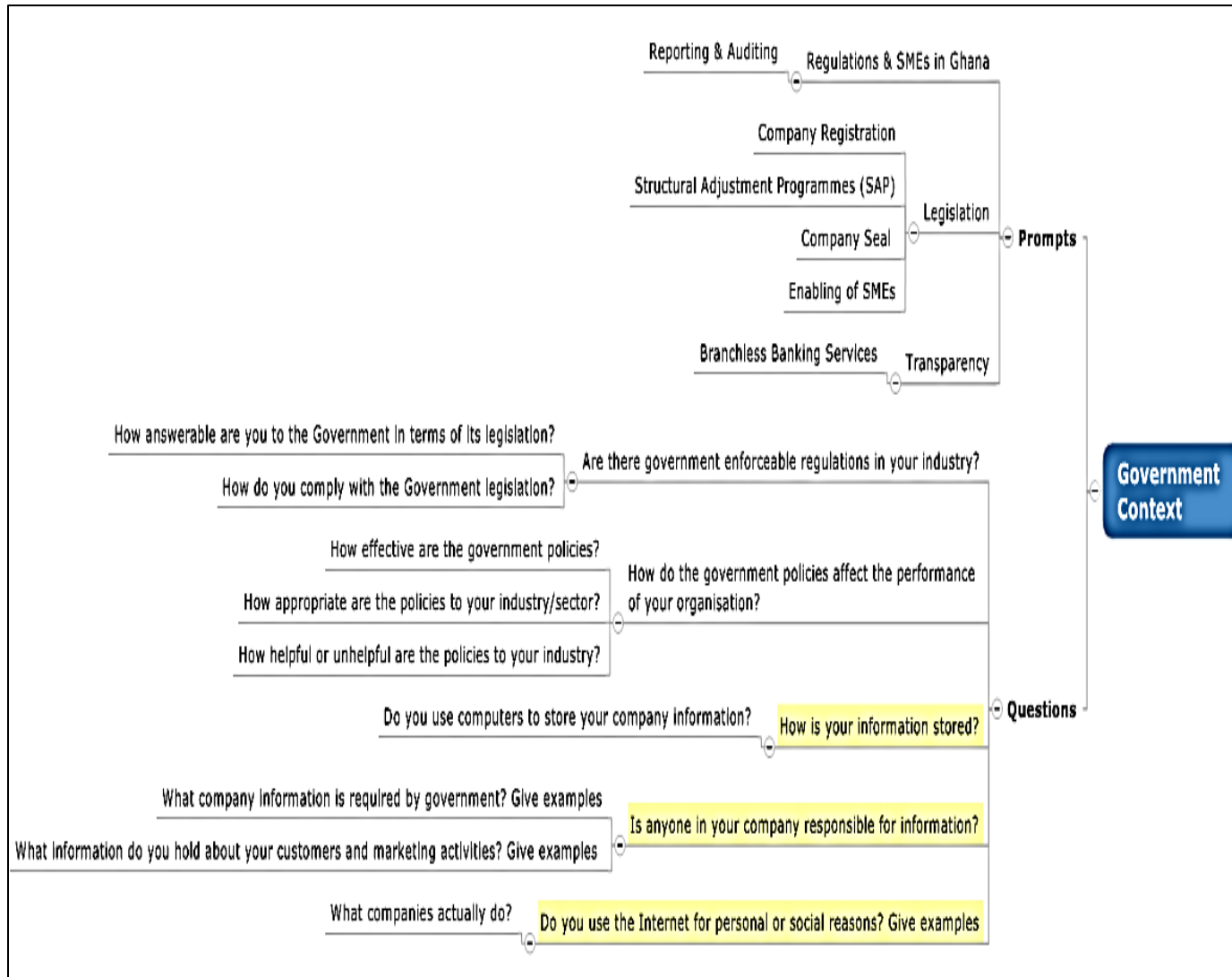
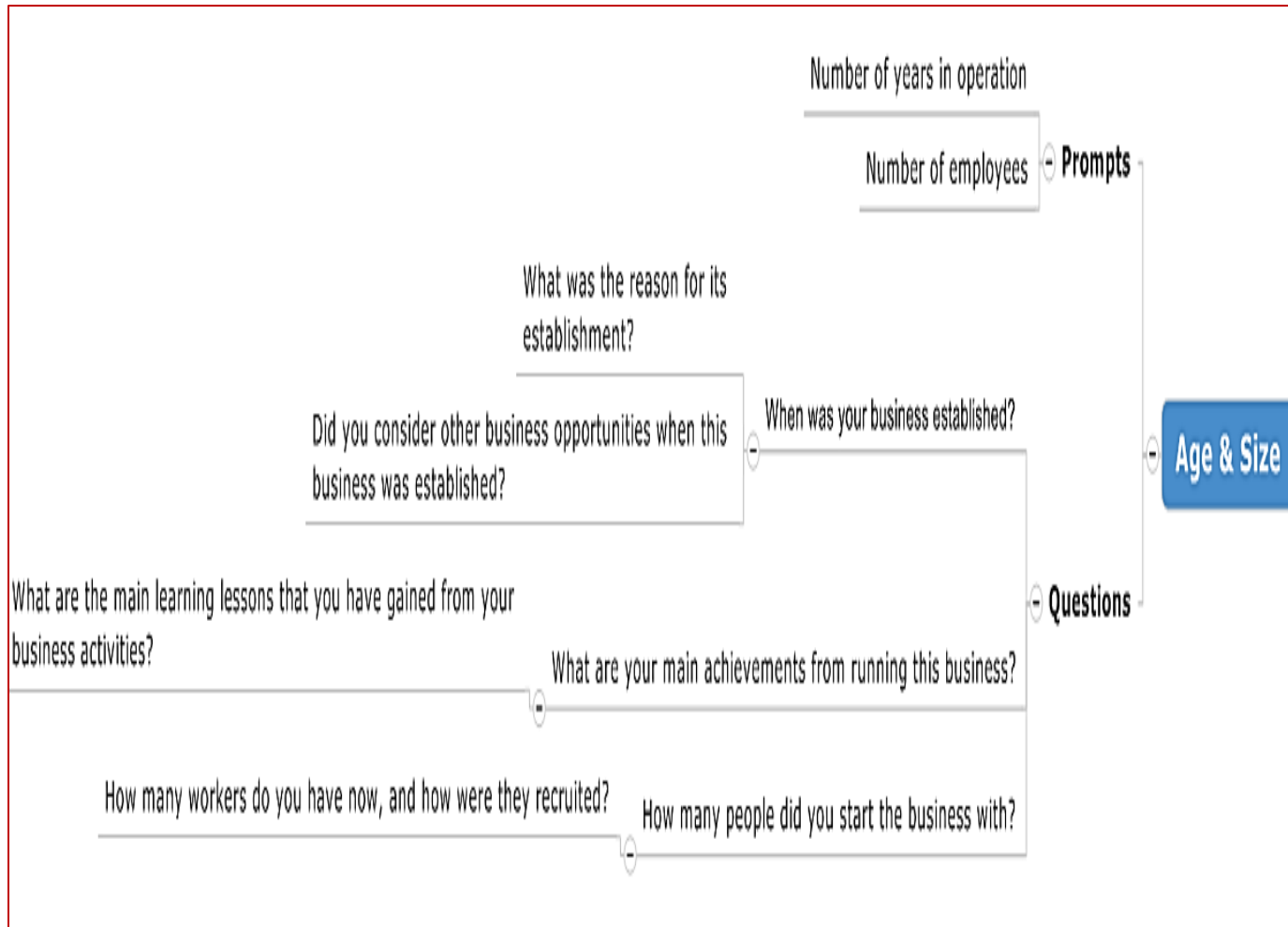


Figure 7 Age and Size Interview Questions



**Re-examining the Determinants of Small- and Medium-sized Enterprises'
Performance Profitability and Growth: A Case of Ghana**

Philip Arthur

**This third project (Findings) is submitted as part of the requirements of
the Degree of Doctorate of Business Administration**

May 2011

Chapter One

Introduction

Six factors relating to small- and medium-sized enterprises (SMEs) have dominated the current thesis. These are: social capital, sources of finance, ownership type, government policies, age and size, and human capital.¹⁸ Performance and profitability (the dependent variable) is also addressed. The study has attempted to apply the information generated from the fieldwork so as to increase the researcher's understanding of the activities of SMEs. The work is divided into four main chapters to encompass the introduction, results, discussion and conclusion.

Chapter Two highlights the issues that have dominated the thesis, from the literature review to the questionnaire formulation and fieldwork activities. This chapter includes a section for each of the five main independent variables central to the study. The main part of the results analysis is found in this section.

Chapter Three discusses the views expressed by the SMEs participating in the study, and considers the implications of the study findings on previous studies.

The final section, Chapter Four, theorises the concepts unearthed by the study and how they have been formed. The limitations of the study are also discussed, as are the policy implications of the study and recommendations for further research. A summary of three projects concludes the study. The next chapter is an analysis of the interview data.

¹⁸ **Chapter One (Project 1):**

1 Introduction and Approach to Literature Review

This paper is concerned with small and medium-sized enterprises in Ghana. It is structured into five main sections, which focus on the following six key variables: performance and profitability, sources of finance, ownership type, government policies, age and size, social and human capitals. A whole chapter, for the purpose of easy reference, is dedicated to each variable in the study, offering an in-depth investigation of the effects of each variable on the performance and profitability of SMEs.

Chapter Two

Results

This chapter illuminates the results of the current project and is crucial to an understanding of the research. The information offered by this chapter has been generated by the fieldwork and aims to give meaning to the study. The chapter has been thematically structured in order to meet the research objectives and to answer the research questions outlined in Chapter 1.8 of Project One. The chapter opens with discussion about social capital and how it influences SMEs in Ghana.

This chapter will discuss the problems encountered by SMEs in financing their businesses, including the sources of their start-up and operating capital, their financial challenges and the impact of loans on their business performance. The focus will then shift to how satisfied or dissatisfied they are with the terms and conditions of the loans they receive, and it will become clear that the overwhelming majority of SMEs consider loans to have a negative impact on their business operations.

Human capital will then be examined, based on the outcome of the interviews conducted. The impact of recruiting professional vis-à-vis non-professional workers is also discussed in detail. In order to examine the contribution of the professional and non-professional workers, the researcher investigates the advantages and disadvantages business owners get from employing qualified/skilled and unqualified/unskilled workers and the reasons for doing so. The kind of training the employers offer new staff and the impact of such training on business performance is also looked into, to ascertain which type of training offers the best results.

The chapter also includes an in-depth analysis of firm ownership and of the kind of marketing strategies adopted for the firms' target customers. The participants offer their reasons for choosing the kind of ownership and the marketing activities that they have adopted, and how these affect the performance profitability and growth of their firms. The mechanisms for setting prices are also addressed, as are the challenges faced by SMEs in setting prices.

There is also an opportunity within the chapter to look into the impact of government policies on Ghana's SMEs. The study looks at the benefits they gain from government policies aiming to help businesses, and also considers the division of opinion on such

government policies. The procedure for enforcing the state policies is examined, in order to understand how accommodating or unaccommodating they are towards SMEs. The report also discusses the ability of SMEs to keep records of information for business purposes and for external bodies.

Within this context, the researcher also looks at the issue of corruption, which has come up in the interview and gained his interest, in order to find out whether there is an element of corruption contributing to the problems of SMEs in Ghana.

The final part of this chapter demonstrates the impact of the age and size of SMEs on their overall performance profitability and growth. Since many previous authors have been divided on the use of age and size of an organisation as a measurement of performance, the current study aims to find out whether or not age or size can in fact be indicative of the performance profitability and growth of SMEs.

2.1 Social capital

Social capital is defined as the benefits that a member of an association enjoys from being part of that group. In the current research project, help from friends and acquaintances is also incorporated into the definition of social capital. It has emerged that SMEs have stronger connections with their families than with any other associations, but that the associations to which they belong are mainly firm-related and further their development by helping to free them from the government policies that they struggle to follow. Within these associations, SMEs form a united force in order to present their grievances to the government.

In this study the term 'associations' is used to refer to the business-related social networks to which SMEs belong. These may be firm-related or professional bodies; there are also various trade associations that the SMEs belong to. The hospitality firms participating in the study all belong to the Hoteliers' Association of Ghana, while the manufacturing firms are registered with the Association of Ghana Industries [AGI] and its various respective trade unions, such as the Wood Products Association, Ghana Paper Printers Association and Empretec.

The members of each association share important information about their businesses at their monthly and annual meetings, discussing the challenges of their sector, government policies that affect their businesses and solutions to the challenges raised. The Hoteliers' Association of Ghana has a network of contacts that helps member hotels

to book other hotels for clients making onward journeys within the country, if clients request. The results of this study confirm the work of Barr (2000), who reiterates the importance of firm-related associational activities.

There is another association that has been born out of the AGI, called Club 100, overseen by Private Enterprise Foundation. The selection criteria of Club 100 are more rigorous than those of its parent organisation, demanding that members meet the high standards set by independent bodies and management experts. Thus to belong to the club is a badge of honour for firms. Membership is not permanent, however, but is kept on a basis of merit. In Humphrey's study (1998), Club 100 could be considered as the means for getting a foothold in the socioeconomic network in Ghana.

The soap-making firm which participated in the study is a member of Club 100. In addition, at the regional level, the firm benefits from the Economic Community of West African States (ECOWAS), which gives manufacturing firms freedom to transport and trade goods among member countries.

Another association that helps businesses in Ghana is the Ghana Export Promotion Council (GEPC), which is in charge of the exports made by firms in Ghana. One participant from the hospitality sector, who also has a growing manufacturing business, states that the GEPC is a source of direction for her firms. GEPC provides helpful information to Ghanaian exporters. They organise training for exporters and provide information about the export destination countries.

2.1.1 Family Connections and SMEs

There is a strong cohesion among family members when it comes to business development and operation. Overa (2006), for example, notes how informal networks are crucial to business performance.

In the current study, one hotel owner tagged the sections of her property with the names of the children in her family, since the family has a key influence in the running of the business through offering advice and sometimes other help to the company. This shows how family and friends have a stake in the everyday activities of SMEs. The majority of SMEs are under the management of family members, who are also board members and pass decisions to the managers.

The soap-making firm, however, discusses how the owner of the business has managed to separate his family from the activities of the firm. Thus the firm runs on a

professional level and he recruits qualified workers to make all the necessary important decisions without the influence of friends and family. The owner is interested in running the business professionally.

Yet in the case of the furniture maker, it is interesting to note that all of the important positions in the company are taken up by his family members. The son is the secretary, the brother is the foreman and the uncle works as a security guard. Lack of trust for non-family members make business owners fill key positions with close family members.

An insightful statement from the book-making participant is very revealing about the power of the family in SMEs:

They're not much connected. Those who are connected are those who go to the school of printing. When you finish you come and handle one of the machines. Let me be careful. They're all working here. The family members who go to Art School work here. We have friends with a printing background working here.

The interview participant stresses the important roles family members play in the business. The power of family in SMEs is very strong. The owners do well to recruit their members in the businesses. It is very hard to separate family from the business.

Family members are able to bring their expertise together in order to benefit their businesses. For instance, one participant from the hospitality sector sent his daughter to England to study hospitality, in the anticipation that she would be at the helm of the business in future.

Another participant claims that the majority of the company shares are owned by her children and husband, and that the other 30% are owned by someone who is not a relative, for legal reasons. Those who own the 30% stake in the business provide security against unforeseen contingencies. They are using the 30 per cent ownership share to cover their backs if things go wrong. The owners make decisions at home and give them to the managing directors. The managers are just figures who rely on the owners for key decisions.

The issue of the extended family system in Ghana is highlighted by one participant in particular. He points out that the family cannot be removed from the business because, by and large, the family is seen as one big organisation. Family members are seen as more committed than non-family members because they see the business as their

security and therefore put in much more effort. One participant claimed, *“It’s their life. Since it is their life they protect it with all their heart[s].”*

2.1.2 Benefits Associated with Social Networks

As SMEs perceive government policies as unsuitable, they use associations to protect themselves from the laws of the country that affect them (Hart 1988). The participants of the current study claim that social networks stand up for their members’ rights when they need to fight for what they are due. They see such networks as a support when they need protection from unfair, and sometimes predatory, policies of the government. For example, the Association of Hoteliers is fighting for a flat-rate television licence fee per hotel rather than per room. This would help hotels to save money for other things needed to run the business. As a part of the association, firms present a united front against the withholding tax (5%) which the government wants to introduce, because firms are already paying too many taxes.

One respondent claimed,

They [associations] fight for us i.e. T.V. licence fee. They fought for us to get a flat rate. They stand in for us when there’s a stalemate. They are fighting for withholding tax (5%). Paying withholding tax is cheating!

Members of the Association of Hoteliers share responsibility for clients and do take some clients to other member hotels if they are overbooked. This is then reciprocated. This is limited on the basis of proximity, however, because hotels are not usually willing to transport clients over long distances.

Moreover, the association lobbies for grants for its members, who claim that it could be quite difficult as an individual to fight for government grants, but that at a group level it is much easier since they can present one voice.

According to one study participant, it is more beneficial if the owner of the hospitality firm is from an elite background as he/she is more likely to get a job from other elite members or from friends with similar backgrounds. The social background of the owners helps them to tap into the network of other people with similar backgrounds.

Participants from the manufacturing firms express the importance of the Association of Ghana Industries because it negotiates deals with the government on behalf of its

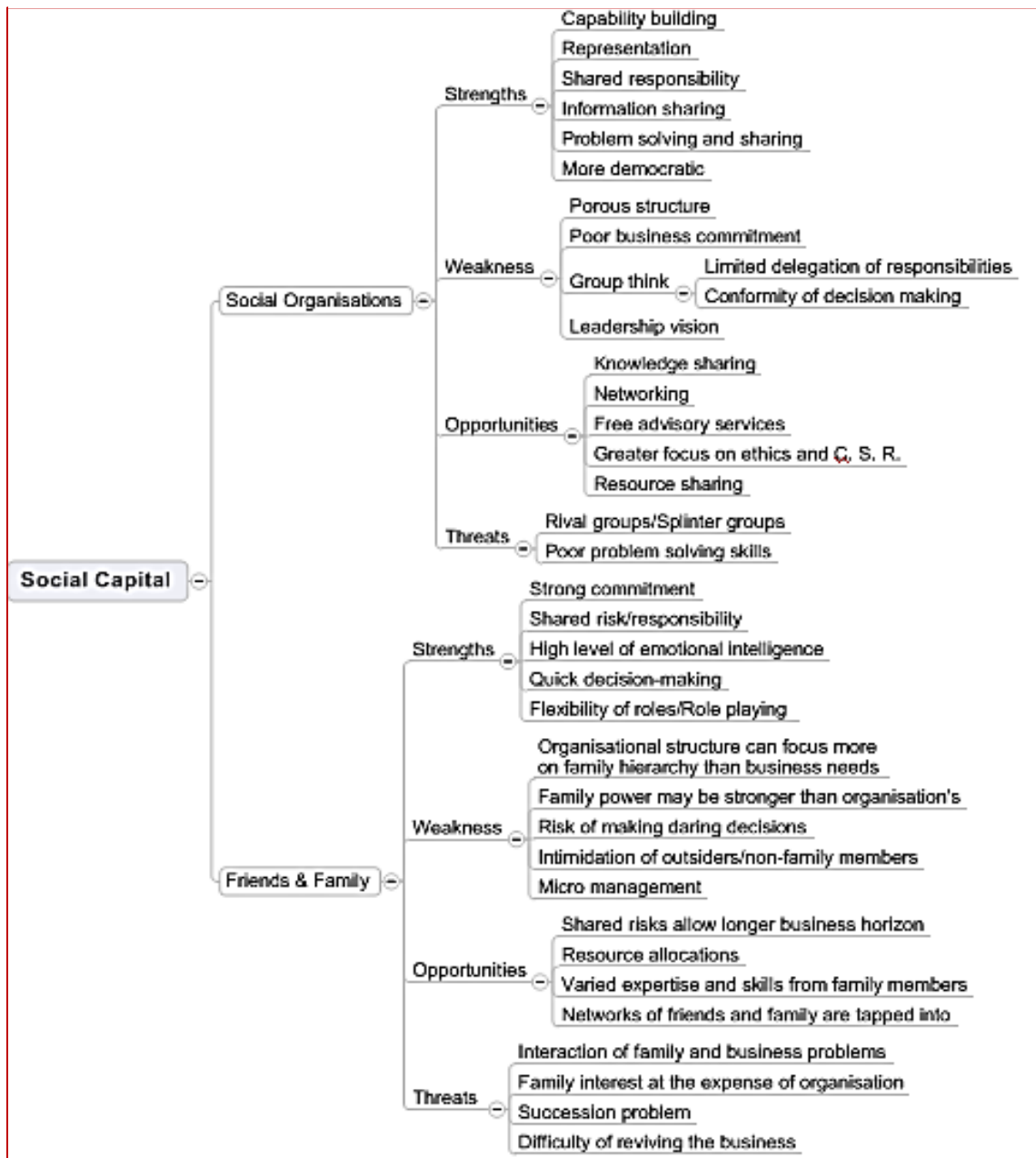
members. The association also organises trade fairs on their behalf in other Economic Community of West African States (ECOWAS). Furthermore, the Wood Products Association has acquired a business park at Sokoban, a suburb of Kumasi, where its members may both work and showcase their products.

The associations provide workshops and trainings to shore up the expertise of their members. The association updates the members about the latest technologies in their business activities.

They can also provide indemnity assistance to SMEs in financial crisis, and are able to act as intermediaries for their members. Associations might mediate between the bank and an SME owner who has defaulted on loan repayments. The associations also provide information about how to access help from the government, and are channels of advancement for SMEs (GNA 2009).

Meetings of association members are seen as an opportunity to generate ideas and to get to know other members who are dealing with similar problems and challenges in the same industry. Meetings are also seen as a time to gain general information about the industry. The most important concern for the members of such associations is to succeed in their various business activities. Evers (1994), Parry (1989), and Bourdieu (1977) all see the link between success and business associations. They claim associations provide collectivism-owned capital and access to information. Members share their problems and solutions.

Figure 8 SWOT (Strengths, Weaknesses, Opportunities and Threats) of Social Capital



2.1.3 Information Dissemination among SMEs

The issue of information sharing among SMEs is not straightforward. Some of the participants are very frank about the way they share information with their competitors, while others are more cautious about the information they provide. Some participants do not open up to their competitors for fear of losing clients or visitors, and provide only everyday information which is not likely to harm their activities or to be used by their competitors to gain advantage over them. Thus even though competing SMEs belong to the same association, they may hold back information and only share that which they assume is already in the public domain.

One hospitality participant gave this honest answer:

“To be sincere we try to hold back. It is sensitive. We share few things about our operations. We can discuss some problems but have limits.”

Lack of openness could make it quite difficult for members to discuss important issues that affect them at their general meetings. As a result, problems are not properly dealt with. Furthermore, since they are afraid to discuss in detail the approaches they use to solve problems at their facilities, they do not encourage a healthy atmosphere at meetings, conferences and seminars. The main purpose of conferences and seminars lose their focus and value if participants do not share their views and are reluctant to make suggestions that will help other members.

2.1.4 The Interdependence of SMEs in the Hospitality and Manufacturing Sectors

Proximity has become the main factor in the exchange of clients among hospitality firms, as discussed above. Most of the clients who are moved to other hotels because of a lack of rooms are part of a larger group that is holding a conference in the overbooked hotel. Therefore, proximity is important, and it also makes economic sense to reduce the cost of transport to and from sister hotels by using hotels that are quite close to the conference centre.

The hospitality firms negotiate with the sister hotels that they send their overbooked clients to, and arrange a fixed payment with them at a reduced rate in return for giving them the business. Hotels are chosen based not only on proximity, but also on the type of facilities available. If a hotel's facilities match those in the overbooked hotel, then that is the one that is chosen for the clients. The visitors sleep in the sister hotels and are then picked up and taken to the conference centre in the overbooked hotel for their

breakfast and lunch, and sometimes dinner, depending on the schedule of activities and the contract between the hotels.

Unlike the hospitality firms, the manufacturing firms are not so interdependent. They seldom send their customers to their competitors when met with too much demand – if they do so, they will lose their business for good. Since the manufacturing firms use physical resources they are likely to charge for the inputs and the referred company is not likely to gain any monetary incentive. They rarely refer their customers to their competitors, as doing so would suggest that their competitors have what their customers are looking for. One participant claims that he only goes to his competitors if he needs an instrument that his competitors have and that he does not have or if his has broken down.

The interdependence of SMEs is limited to certain areas of their businesses. For instance, they are less dependent on each other when it comes to information sharing, since they are often unwilling to freely share information with their competitors.

In general, SMEs are ready to offer help to their fellow association members if the assistance sought is not too demanding. Assistance on a low level is offered without hesitation, although assistance that requires the borrowing of items is usually thoroughly documented in order to avoid arguments. This is particularly the case in the manufacturing sector.

As discussed above, the hospitality firms rely on one another by sending their clients to other member hotels when they are overbooked, and this gesture is reciprocated. They do not send their overbooked clients to hotels that do not belong to their network, however.

2.1.5 Corporate Social Responsibility (CSR)

It is usually assumed that CSR is only the responsibility of organisations operating in communities, for the benefit of the society they work in. However, this study shows that the communities also, in turn, contribute to the successful operation of the organisation. The participants of the current study state that the communities in which they operate also help them in the running of the business, in various ways.

Some of the study participants provide employment, water, personal computers, public places of convenience and accessible, asphalted roads to the community. They also support school projects and training for local people. Of all the participants, only one

expresses a negative perception of the community her organisation is situated in. She claims that the local people are very demanding and that her business does not benefit from them in any way.

The rest of the participants praise the communities they operate in for the peace of mind the people give them. They have a very good rapport with their communities, who act as vigilantes for them by alerting them of any suspicious behaviour in the community so that preventative measures can be taken. The soap-making firm, for example was given a plot of land for his business for free. In addition, some community members alert or arrest intruders using their citizens' right to arrest. Thus there is a sense of community spirit between the businesses and the communities.

Thus in Ghana, CSR goes both ways between businesses and communities, with each benefiting the other. The communities present a united front to stand by the businesses. One manufacturing participant has this to say: *"Despite the noise our company makes, they don't complain."*

Another hospitality owner reiterates,

Protection [The neighbours protect me]! When there's an intruder the community will be defending us.

These statements are indicative of the benefits that the firms receive from the communities they operate in. The findings from the study indicate that social capital could be one of the contributory factors towards improved performance profitability and growth of SMEs in Ghana. The next stage is the examination of the sources of SME finances and their effect on their business activities.

2.2 Sources of Finance

The researcher examines the avenues that are open to SMEs when they are short of money, and also looks at sources of start-up finance. This part of the study includes the potential choices for SMEs when they need operating capital, and evaluates their views of the loans they receive from the high street banks.

2.2.1 SMEs and Their Start-up Capital

The majority of SMEs raise capital internally to start their businesses, and later fall back on the banks for operating capital when a financial crisis sets in. For instance, one

hospitality firm owner mentions how he was able to raise money from his other business to start the hotel, but states that he now relies on a foreign financial institution, Standard Chartered Bank, to get the additional money he needs to complete the hotel project. He recalls paying Standard Chartered Bank off, after his investment with them reached maturity.

The second hospitality firm owner also relied on the savings made through her other businesses (sachet water production, agro-chemicals and car washing) to start up her hotel. She does not depend on the banks for assistance, but continues to use money from her other businesses and from her foreign networks. The owner relies on friends, classmates and family members who live abroad.

One participant, however, gets her funding solely from the banks. This participant has another business and has already established an excellent credit record with her lenders, and this has enabled her to borrow money from the bank. This is indicative of the fact that banks give credit to businesses with whom they have already established a rapport through their banking activities in other areas of business

The manufacturing participants all started their businesses with their own personal savings. The two who started their businesses on their own initial savings did so after an apprenticeship, during which they saved enough money to start their own businesses without resorting to the banks. They then consulted with the banks for funds once they were firmly established in the business, and have found that the banks are willing to put a fair amount of trust in them.

The soap-making firm, for example, relies on the banks for financial assistance at a huge cost, exchanging shares in the business for financial capital from the banks. The firm first received loans from the National Investment Bank [NIB], and is now with the Merchant Bank of Ghana.

2.2.2 Start-up Options

Participants of the study who are not the owners of the businesses they are managing do not have adequate information about the alternative business options the owners had when they planned to start the business. This is indicative of the lack of well-documented information available to managers, and of the tendency among owners to keep managers in the dark about their plans. The participants who are the owners have

been able to give more detailed information about their initial plans and objectives in setting up their businesses.

Of the owners in the manufacturing industry, two of the three participants are people who previously had training in the businesses they are now running. Having been apprentices in the field in which they chose to establish their businesses, they now claim that they have achieved their dreams.

Interestingly, all of the hospitality firms participating in the study were born out of other organisations. The owners of the hospitality firms claim that they are operating as an offshoot of their sister organisations, i.e. that they are running other businesses, and that the profit generated from these businesses is used to build their hospitality firms. Of all the hospitality firms studied, not one of them was started as a main business. Their other businesses provide something to rely on in case of a problem in the hospitality industry. This may be because of the capital-intensive nature of the hotels, which requires the hotel owners to work in different fields in order to raise the necessary capital to start.

This study confirms the pecking order theory (POT), which states that firms will initially resort to their own finances as a primary source of capital, and will only turn to other sources when they have depleted their financial resources (ORUC 2008; Myers 1977; Gosh 2004). The pecking order theory is evident in all the firms participating in the study.

2.2.3 Sources of Operating Capital for SMEs

Most of the participants use their own money as operating capital in order to get their businesses running, to meet customer demand and to upgrade their facilities. The majority of the hospitality participants have parent businesses, the profits of which help to finance their hotels. This strategic approach helps them to avoid going to the banks for loans. As a result, the hospitality firms show more signs of success. Moreover, it is likely that the hospitality SMEs will have a good relationship with the banks through their other businesses. Jensen (1986) and Bank (1994) emphasise the correlation between profitability and leverage. Successful SMEs stay away from lenders, and the more profitable firms are less leveraged than the less profitable firms. This assertion is emphasised by Fama (2002) in his study of trade-off and pecking order theories.

By contrast, the manufacturing firms seem to be more dependent on high street lenders for money to run their businesses, relying on overdraft facilities and loans from their bankers as their operating capital. The manufacturing firms state that they are not happy with the financial help they get from the banks, but they still rely on them for support because they do not have an alternative financing or credit option. The banks are rigid with their lending terms, to the extent that they will not give additional loans to firms who still owe them money and who need more operating capital to boost their businesses. The manufacturing SMEs claim that the banks will simply watch while they fail if they have not cleared their earlier loans and do not have additional collateral for new loans. One participant expresses her displeasure with the banks, but keeps going to them for financial assistance as she has no other choice. She states,

We go to the same banks of course. We don't have any choice. The politicians share all the money from outside. If you go to them [politicians/government's credit agencies] it's like getting it from the banks.

In the above statement, she also criticises politicians (i.e. the government) because the interest rates they give are similar to the ones the banks charge on their loans. She is referring to the grafting in the country which she blames the politicians for.

Another issue that is worth mentioning is the supply-side constraints that SMEs have to live with. The banks do not have proper records of the SMEs and are not ready to risk their finances. They demand huge documentation from SMEs. They are unable to influence (provide records of their businesses and their financial activities) the lender from whom they want to borrow and, as the above statement depicts, there is a lack of variety of funding sources. A similar picture is painted by Watson (2002) in his examination of SMEs in the UK.

The owners and managers taking part in the current project state that being able to resort to internal sources of funding, rather than relying on the banks, is an indication of success. Their perception is based on their ability to raise their own capital without turning to the banks. They are not happy with the high interest rates the banks charge them and will do their best to avoid the use of banks for their financial needs. When they use their own money they save money on interest which will have gone to the banks as interest. A similar result was unearthed in the study by ORUC (2008). In addition, Jordan's (1998) study of SMEs in United Kingdom shows that pecking order is

widespread in SMEs. Pecking Order happens when businesses depend on their internal financial resources to raise capital and only resort to external financing sources after all attempts to generate money internally have failed.

Another aspect of pecking order theory, exhibited by most firms participating in the study, is that the younger the firm, the more likely it is to depend on internal financial sources. The younger firms do not have a long financial credit history with the banks so they can hardly get loans from the lenders. The majority of the participants use their savings or profits from other businesses when they need capital. This finding is also supported by the work of Watson (2002), who examined the financing of SMEs in United Kingdom using the information on UK FAME, a database of businesses.

2.2.4 Financial Challenges Facing SMEs

Most of the SMEs participating in the study did not consider borrowing money from banks in order to start their businesses because of their negative views about taking loans from high street banks for business purposes. This is because they have been put off by the negative experiences of other SMEs who have borrowed money from the banks for operating or start-up capital. As a result, many SMEs do not have experience of dealing with banks in terms of loan acquisition.

Collateral has become a big issue for the borrowers, as they generally do not have any to start with. Yet banks always seek collateral before approving loans. Thus borrowers who do not have collateral are cut off from the financial institutions' list of borrowers. They are not considered to be creditworthy and do not have any chance of getting a loan from the banks. Those who have the collateral, however, often do not borrow money from the banks because they are put off by the high interest rates the banks charge on loans. As a result, Tagoe (2005), in his study of SMEs, finds that they are hampered by a lack of available and accessible finance.

The participants convey the impression that banks often do not consider the business plans that SMEs produce when they apply for loans, but are more interested in the collateral than the feasibility and profitability of the projects. The banks are inflexible and tend to treat all SMEs with suspicion, even where projects would realistically be able to pay back loans. One manufacturer expresses his frustration in the statement below:

It's not easy but if you have collateral that's fine. The valuation will work out the shares. We go through challenges before we start up the business. [Banks] don't look at the long-term effect of the business plan we present. They're not flexible at all. They put all of us in the same basket. If I'm looking for working capital I don't get the money and start paying immediately.

The participants all make negative statements about their experiences with the banks, and none of them recommends banks as a source of funding if there is a suitable alternative option available to them.

There is also a delay in loan application procedures. The banks take a long time to go through the entire administrative processes involved, and demand physical collateral, guarantor and extended business financial records that SMEs are often put off applying. Furthermore, the non-refundable administration fee is about 8% in addition to high interest rates of about 36%. As a result of such obstacles, SMEs see banks as unfriendly and avoid them if possible.

2.2.5 Impact of Loans on SMEs

Some of the participants do not know how to get loans from the financial institutions in Ghana. In order to start their businesses, many of them used their own personal savings and investments (bonds and shares) abroad and did not realise how loans could improve their businesses. Borrowers insist that the interest rates on loans are too high and put enormous strain on their performance profitability and growth. Because the rate of interest is quoted around forty per cent, they make less profit as the interest on the loans take a higher percentage of the profit. Below is what one of the participants says about the loans:

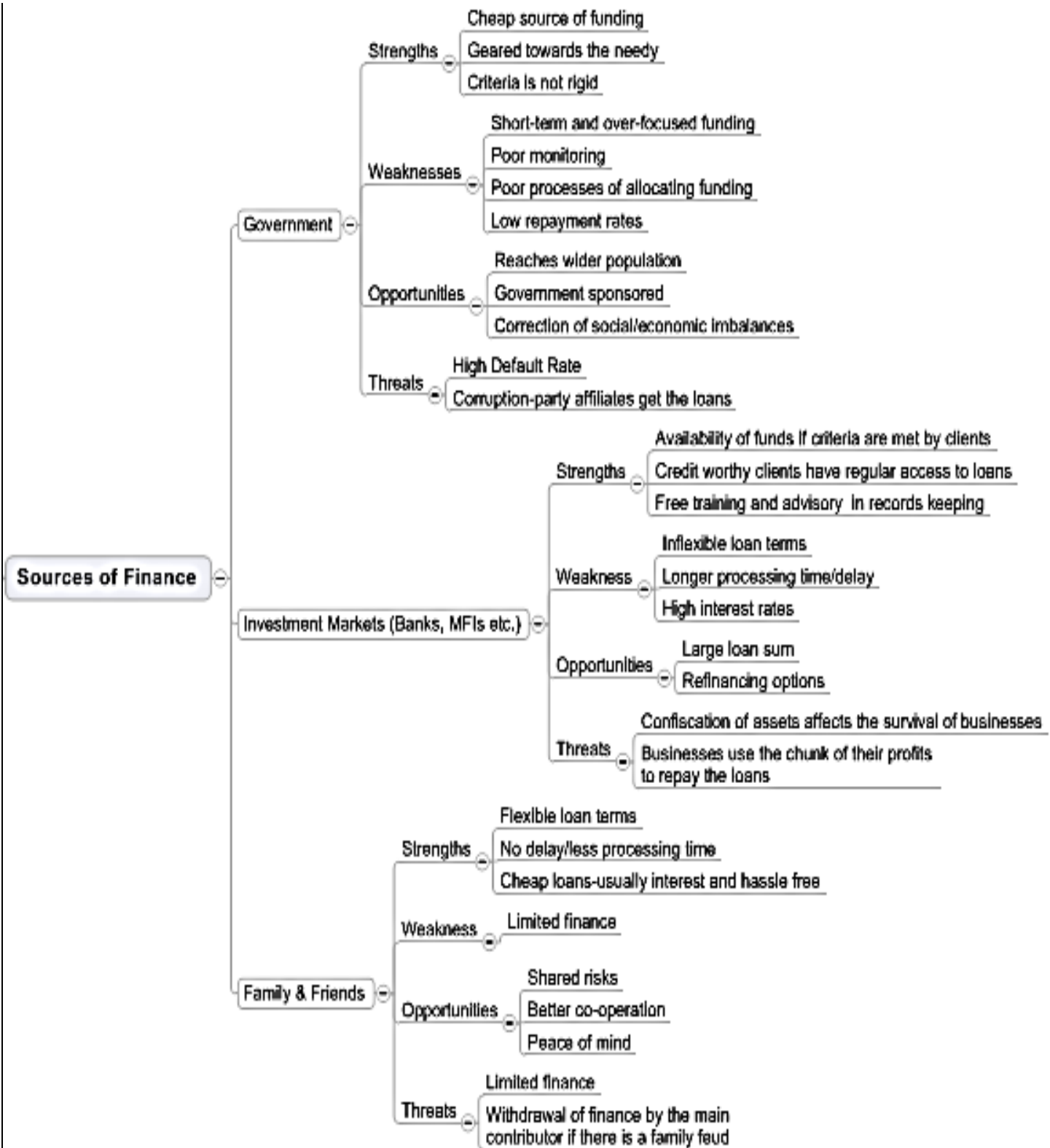
The little profit you get you have to use to pay your debt. The interest rate is affecting us. The longer the loan [maturity] the higher the increase [in interest rate]. By the time you pay off the loan your profit is [used up].

This statement clearly portrays the effect of loans on the businesses that use them. Here is another comment from one of the hospitality participants:

It's crippling. You realise that at the end of the month you're left with nothing. The expenditure is higher than the revenue.

The above comment shows that the businesses that rely on loans are not able to put their profits back into the development of their businesses, or to invest in training for their staff. They are not left with enough money to re-organise their businesses in order to take advantage of future market opportunities.

Figure 9 SWOT Analysis of Sources of Finance



2.2.6 Satisfaction from Borrowers [SMEs] about their Loans from the High Street Banks

The SMEs that have not borrowed money from the banks are unable to give concrete evidence of the way they feel about the lending terms of the loans. They do emphasise, however, their hope that they will never need to borrow money from the bank, for fear of being burdened with interest rates that they would find difficult to repay. They all express misgivings about the conditions of the loans the banks offer SMEs in Ghana. Some claim that the banks charge two times the initial amount borrowed, and therefore do not anticipate going to the banks if they need money to run their business. They claim that bank loans would start them on a cycle of borrowing, as they would have to use all their profits to make repayments, and would then need to borrow further money as a result.

Of all the hospitality firms studied, only one borrows money from the banks. The rest do not rely on the banks for anything, as they have their own sources of finance. All of the manufacturing firms have previously borrowed money from the banks for their businesses. Yet they also express ill feelings about the terms associated with getting loans from the banks.

One of the manufacturing participants argues that the banks do not serve the interests of their clients, stating that they are more interested in satisfying their own personal agendas than meeting the needs of the borrowers. He claims that the terms of the loans are not flexible enough to meet the challenges faced by the borrowers.

The lenders are not flexible at all. Manufacturing goes beyond buying and selling. Even the hazards! Accidents happen. Our loans should be flexible so that we can wait perhaps five years before we start to pay the loan.

The participant from the only hospitality firm that has ever borrowed from the banks also makes negative remarks about the treatment she receives from the banks. She states that she is only relying on the banks because of the unavailability of alternative lending options, and that if there were a better deal somewhere else, she would leave her bank. Unfortunately there is no one else that she can turn to if she is faced with financial difficulties. She vents her anger in the statement below:

I'm very dissatisfied but I don't have an option. At the end of the day if you calculate your profit then you're working for somebody [the lenders are profiting more than I do].

It portrays how the banks can turn borrowers into slaves and paints a clear picture of the power held by the banks over a borrower's business.

The minority of participants who express satisfaction in their dealings with the banks are happy with the banks' willingness to lend them money, but not necessarily with the conditions attached to the loans. One participant portrays the banks as using ruthless repayment methods (court actions, confiscation of private property and harassment letters) when borrowers are behind on repayments, and states that banks use uncompromising legal means in order to get their money back. One participant from the manufacturing sector describes his ordeal in the statement below:

The satisfaction comes from how they're willing to give us money. The dissatisfaction is when the loan is not paid. They'll be on your necks. Sometimes, the job you get the loan for may not be finished but they'll be on our necks. Sometimes, they'll take you to court. We're even now experiencing [this].

The participating SMEs in the study all expressed misgivings about bank loans because of their unintended consequences on the performance profitability and growth of their businesses. They only use the banks as a last resort when all necessary pursuits/quests for financial assistance have not yielded outcome. The next section details the effect of human capital on business performance.

2.3 Human Capital

This section focuses on the importance of human resources for SMEs. It draws a clear distinction between the professional and the non-professional workers that the firms rely on and looks at the reasons for the recruitment styles used by SMEs, as well as the criteria that are followed. It also highlights the skill sets that employers look for in their prospective employees.

2.3.1 Who are the more profitable employees, Professional or Non-professional?

In the study, most of the participants taking part express a preference for working with those who have training in the job over those who do not. Professional workers imply

workers are trained and certificated in the profession and the non-professional workers are those workers who do not have any formal training or qualification in their profession. The participants state that professional workers bring more to the business than non-professional workers, although both types of worker contribute to the operating of the companies. In fact, the efforts of both professional and non-professional employees complement each other, and one needs the other in order to succeed. It is important to note, however, that whilst professional workers can run a company without non-professional workers, the latter cannot run a company without the professionals. All of the owners and managers participating in the study emphasise the incalculable effect of good performance and the invaluable contribution that is made by professional workers in their businesses.

In the hospitality industry, where the product is an intangible service, professional workers are of considerable importance to the successful running of business. In this sector, once the service is delivered, there is no opportunity to review and improve poor customer service. This is in contrast to the manufacturing sector, where products can be examined by quality control teams. Thus in manufacturing organisations, goods can be improved upon in response to the work of the quality inspection team; products can also be recalled to the factory for improvement.

Although both professional and non-professional workers are needed in the running of organisations, the former make a more pronounced contribution to the achievements of those organisations. This is because key decisions and operational designs are made and initiated by the professional employees. Below is the statement of one hospitality firm manager regarding professional and non-professional workers:

They [professionals] know exactly what they have to do. They need little training in the work. They work with less supervision. They give a professional touch to everything they do. The non-professionals are not good at customer service. [Professional staff] does things differently and you have little problems with clients. There is a big difference between professionals and non-professionals. [Professionals] make your place a real home for clients.

The above comment emphasises the advantage of employing professional workers. They help companies to reduce the number of resources they use and, as many scholars affirm, better performance results from the employment of a better educated

workforce (Daniels 1998; Akoten 2006; Biggs 2006; Abor 2007; Frempong 2008; Masakure 2008). Moreover, where professional workers are employed, resources can be invested in areas other than training; in addition, it is easier to move the workers around within the company without needing to retrain them. This more strategic use of resources can reduce running costs, as man-hours are saved and transferred to other, perhaps weaker, areas of the firm. Gartner (1999) asserts that in most SMEs, their poor performance and demise could be the result of using an uneducated and unskilled workforce. Yet training is costly and time-consuming; the more time firms use to train their staff, the more money and man-hours they lose that could otherwise be used to manufacture goods or deliver services. The view of one participant is expressed below:

Professionals contribute more; at least, they have key knowledge about the business. It takes less time (3 days) to train a professional, while it takes more than 3 months to train non-professionals.

Customer retention, which is of paramount importance to the operations and growth of businesses, is stressed as crucial by the majority of the participants. Without customer retention, customer loyalty cannot be guaranteed, and it is more difficult to predict future income if firms have no loyal customers buying from them on daily, weekly, monthly or yearly basis. In addition, the more customers or clients a company retains, the more revenue it makes. Professional employees are perceived as an important factor in securing repeated business from appreciative customers and clients. One participant expresses his view about professional workers in as follows:

[It's] really important! As I said you're able to retain customers. You add more revenue. If you don't have professional staff you minus revenue. If you don't employ professional staff you won't last.

In one instance, one participant compares running a business to the way the human body works, stating that legs are useless if the head is cut off from the body. In the same way, firms may die if they do not have qualified or professional workers to run them. Organisations can survive if there are only qualified workers available, because qualified workers can do what non-professional workers do, but the latter cannot step into the shoes of the former when they are not present. The participant sums this up in the statement below:

They [workers] all have their roles. The skilled are put into sensitive [management] positions. The unskilled ones do the pushing of the

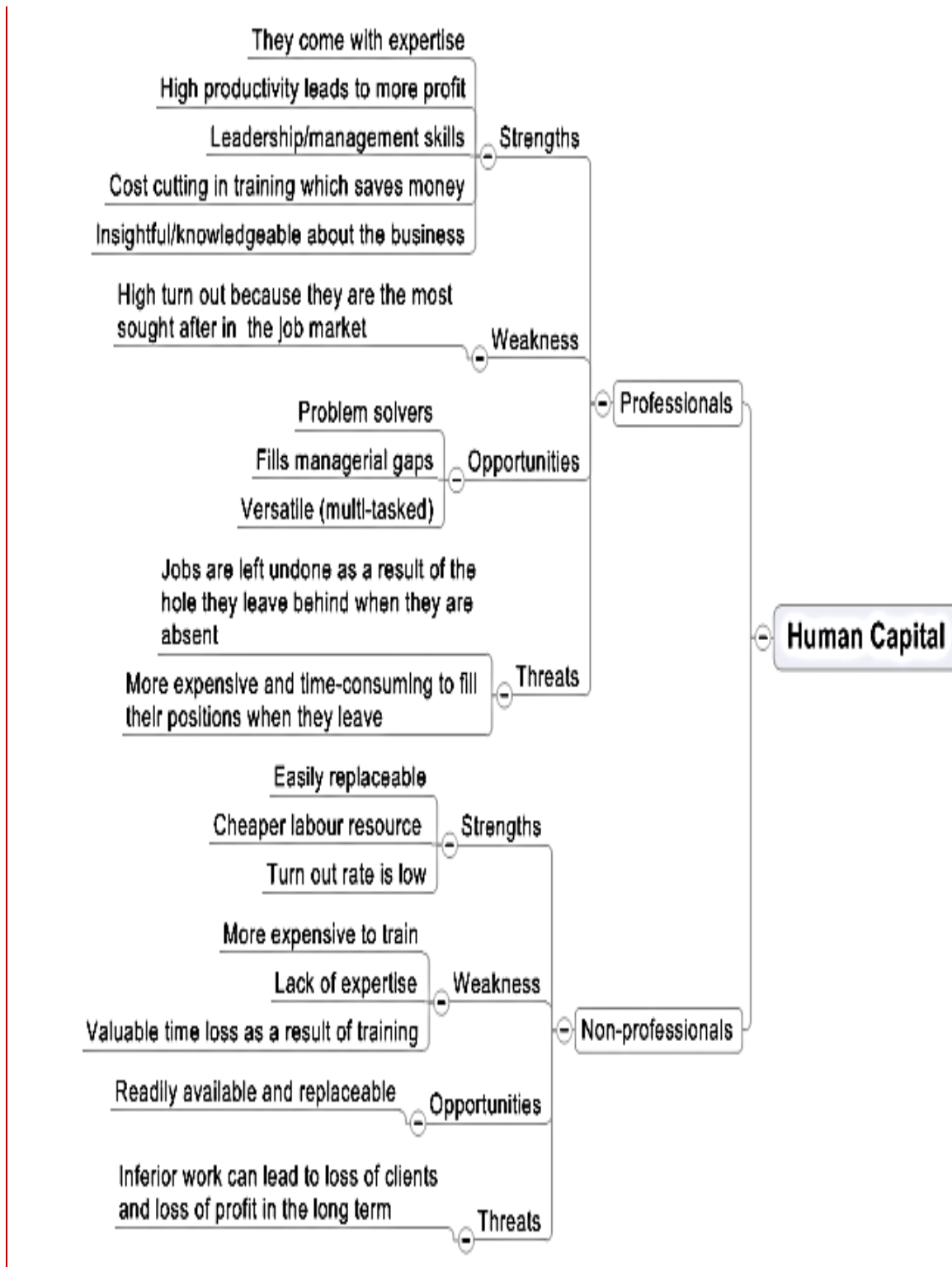
tanks. [Professional and non-professional workers] complement each other.

All of the participants taking part in the project state that professional workers are more able to help the business to grow and improve, whilst non-professional workers are difficult to work with and to train, and have less understanding of the industry they are working in.

One participant uses negative adjectives to describe non-professional workers because of the nature of the jobs they do in his organisation, and uses the derogatory term 'inferior' in an attempt to discredit the role of non-professional staff in his organisation.

This study has shown that, in general, non-professional workers are not valued by their employers. However, the owners and managers participating in the study all point to the good value that professional workers add to their companies. The findings in the study reiterate the works of previous authors about the positive contributions of professional workers in businesses. The diagram (figure 11) below compares the benefits of qualified workers with non-qualified workers.

Figure 11 SWOT Analysis of Human Capital



2.3.2 Recruitment Styles of SMEs

The participants in the study describe the variety of recruitment methods they use. They practice an open employment process that involves putting their job vacancies in the media for potential applicants to see but in some cases, which is common among the manufacturing firms, prospective employees walk in to enquire about job vacancies.

One participant buys airtime on radio stations, in order to advertise vacancies in the hotels. As well as using the radio, he uses the national newspaper, The Daily Graphic, to publicise the vacancies. He receives applications by email and surface mail as well as directly from applicants who submit their completed forms over the counter. The best applicants are then selected in interview.

The participants also address the issue of using both skilled and unskilled labour in their organisations. One participant explains that the nature of the position that needs to be filled will determine whether a skilled or an unskilled applicant is employed. He cites the use of unskilled labour in the cleaning section, for instance, because being able to clean does not require any formal qualification. However, he relies on qualified employees such as accountants, chefs, and food and beverage experts to work in their respective roles in the business.

One participant from the manufacturing sector claims that they only advertise the skilled jobs because of the unique nature of specialised skill set that is required to carry out those tasks. They recruit employees with backgrounds in science because they make soap and the work requires a scientific approach. They also employ candidates who have electrical, mechanical, and processing engineering backgrounds; accounting, administrative, sales and marketing staff are also carefully selected from a pool of job applicants who have the required skills. They do not publicise manual work vacancies but, as and when it is required, they pick unskilled labourers from among the people who walk in to ask for positions in the company.

The furniture-making firm has two ways of recruiting workers. Some workers, who have received training in other organisations, are employed after walking in to look for a job. Others apply to join an apprenticeship programme in the company. After a period of four to five years of apprenticeship, they become qualified. Once they qualify they choose either to stay on or to leave the company.

A notable variation in the participants' approaches to recruitment is revealed in the interview with the book manufacturer. He recruits people who are found loitering in the vicinity of the company, and thus provides them with an alternative to street crime. This is an example of a humanitarian, social enterprise-based recruitment style. The recruits are offered training if they wish to work for the company. His company also recruits qualified people with certificates or degrees in the field of publishing. It does not, however, officially advertise vacant job positions.

An analysis of the interview data reveals that there is very little discussion between managers and owners when it comes to recruitment, and when managers take over the role of the owner, it appears that very little information is handed from one to the other. One participant describes having no idea how the employees in the hotel he manages were originally recruited, but believes that some of them may have been poached from other hotels. He states that he has been employed by the owner to provide professional training to the staff, but that he has not been briefed on the backgrounds of the employees. Lack of information affects his knowledge of the whole organisation and approach to solving human resource related issues like assessment of staff training needs.

2.3.3 Employee Training among SMEs

According to the participants in the study, most employees are given on-the-job training on commencement of a new post in the company. One participant claims that he relies on the services of consultants, who visit the hotel on a six-monthly basis to train the staff in customer service and customer care. This training consists of the workers being shown a video clip demonstration of activities in a typical hospitality firm, and then being taken to various departments to demonstrate what they have learned.

According to Mead (1998) and Rogerson (2001), education and training are perceived as providing opportunities to SMEs. In their studies of SMEs, it emerged entrepreneurs with better education and or vocational training are better able to adapt to the ever transient economic environments. The works also portrayed positive effects of quality human capital on the growth of SMEs. In the current study, many of the participants talk about the continuous training and development of employees. In the hospitality business, training is given to staff in order to keep them up to date with industry standards, and they are also cross-trained so that they know what happens in departments other than their own. This means that if there is a staff shortage in one

department, workers from other sections can fill vacant positions until permanent replacements are found.

One participant, however, laments the lack of qualified personnel in the hospitality industry in the statement below:

I have 13 years of hotel management experience [long pause]. I'm a lecturer. I also do what is called Resource Management in the Hospitality Industry. Ninety per cent of the industry is privately owned and 80% of the staff [is] are not trained.

This statement supports Frazer (2005) and Madilo's (2009) assertion that a lack of well-trained and qualified workers is widespread among SMEs in Ghana. If the industry is filled with qualified workers they are able to produce quality products and services. They tend to understand the current developments in their career fields because they will be updating themselves to meet the market requirements. The participants overwhelmingly emphasised the resourcefulness of professional workers and undoubtedly, their positive contributions to performance profitability and growth of their businesses. When workers are more efficient productivity increases and the company maximises profit.

One participant from the manufacturing sector gives his new employees six months of training; these six months are also considered a trial period for the trainees. After the six months, they are either offered a permanent position or have their contract terminated. This finding agrees with Jones (1997) and Frazer (2005), who assert that Ghanaian SMEs often use untrained employees, and train them on the job. SMEs who take this approach see it as a way of cutting the cost of recruitment whilst also resulting in more qualified and experienced workers. The furniture maker retains apprentices who qualify after their years of apprenticeship to circumvent the cost and time in recruiting new workers whom he does not know their level of expertise.

One participant from the hospitality sector mentions how difficult it is to deal with her staff because they do not understand the dynamics of the industry they work in. As a result, she has to train them on a continuous basis. She invites professional bodies, such as hospitality schools and the fire rescue service, to come and train his staff. She also interviews staff in order to find out their areas of strength before assigning them to their respective roles in the company.

The furniture manufacturer does not have a formal training system for his employees, unless they are apprentices. Qualified workers in his company are given a task as a trial, and if they are able to do the task then they are accepted into the working team. This approach may be disadvantageous to those who have the potential to learn and grow as they progress through the job but may not be able to perform the trial task. The reason is the trial task does not cover all aspects of the job. Since it has the potential to eliminate future good workers it is deemed as not the fairest way to ascertain the potential in would-be employees. It could also eliminate good prospective employees who have the right mindset but have phobia for tests.

In the case of the printing house the professional and non-professional workers are all given training in the company. However, the professionals have their roles designated from the outset, while the non-professionals are trained in all sections of the firm. The non-professionals are assigned their duties on completion of on-the-job training, which involves progressing through increasingly complex tasks.

The professional workers are making more contributions to the growth of their businesses than non-professional workers, according to the participants of this study. Training and development are good to help the unqualified workers to gain skills at the workplace. There is large presence of unskilled workers in the SMEs which participated in the study. The next section deals with the business model and how it affects business performance.

2.4 Business Ownership and Model

This session discusses the nature of different types of ownership structure and the reasons behind the adoption of particular proprietary models by SMEs. Other business activities, such as promotion, distribution and the marketing of goods and services are also discussed in this part of the report. In addition, the mechanisms of price setting and how SMEs compete with other similar firms in the market will be addressed. The importance of trust in the ownership and management of businesses will also be highlighted.

2.4.1 Reasons for Business Start-ups

All of the hospitality SMEs taking part in the study started as diversified businesses of their owners' other businesses. The owners started these new firms in order to gain the security associated with a variety of sources of income.

Most of the manufacturing firms, however, are not offshoots of other businesses, and are independent from other companies. The owners of the firms came to the trades in which they are now operating having gained qualifications in those trades. The only exception to this is the soap-making firm, whose owner had initially studied law and had worked as a lawyer. He started by producing palm oil, which is one of the main ingredients of soap, and after realising the good prospects in the industry, he gradually moved to making soap. Eventually, this became his main source of business and his main trade.

2.4.2 Ownership Types and Reasons

Family-owned SMEs are widespread in Ghana (Abor 2007; Makatiani 2008). All of the businesses participating in the study are family-owned, with capital being raised by the family members, and by the primary business owner's father and mother in particular. Family-owned SMEs tend to be limited in their sources of finance because they do not allow outsiders to hold shares in the businesses. This may become a problem for them when they run out of operational capital. The more shareholders a business has, the better, because having a broader financial base could increase the chance of sourcing funding for running costs or materials.

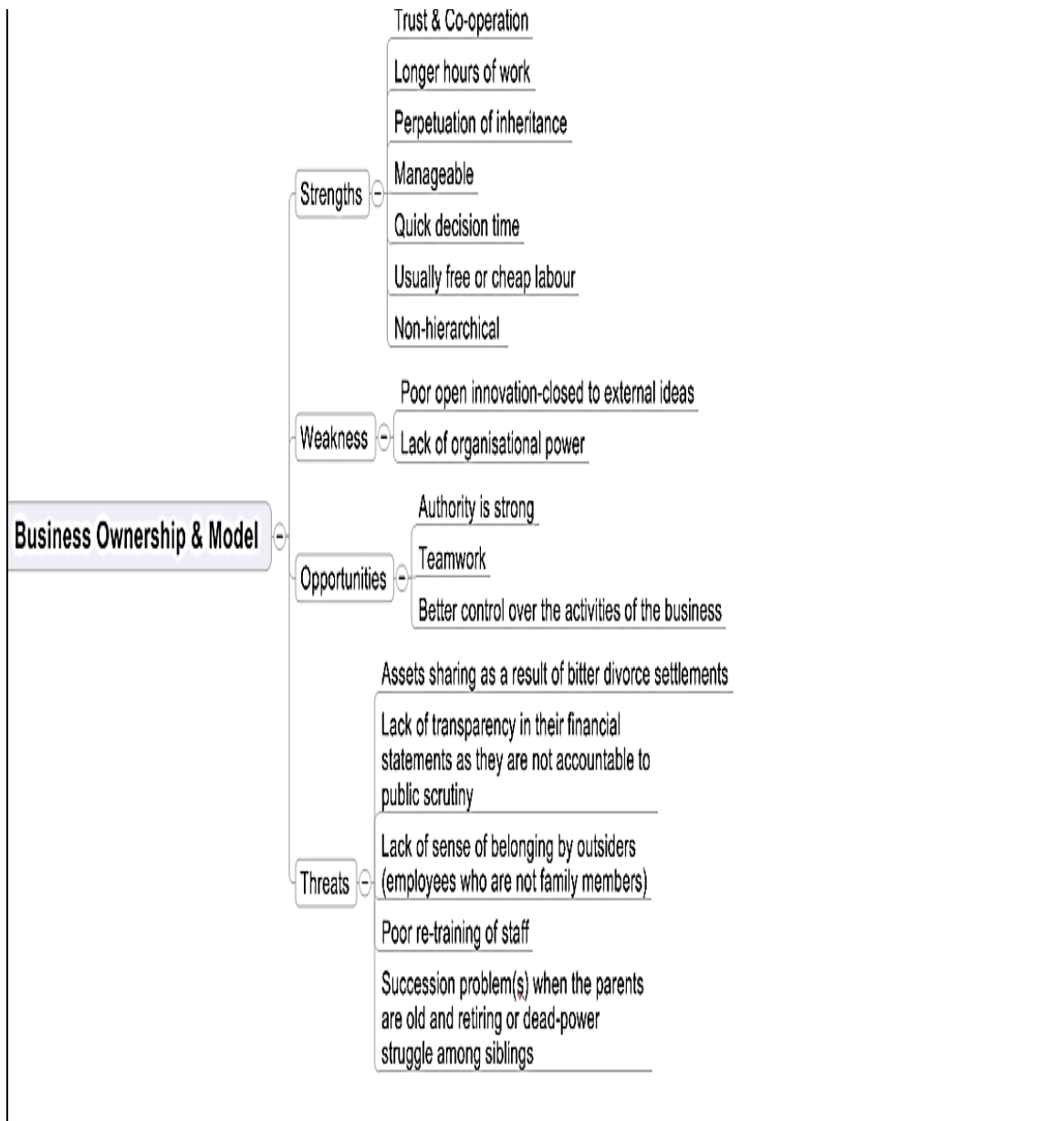
The owners of the SMEs participating in the study cite many reasons for choosing the ownership structure they have adopted. For instance, one participant expresses his disapproval of partnership because of the inherent challenges it contains. His major concern with partnership is related to the big extended family system of Ghana. He claims all extended family members will fight for a share of the company in case one of the partners passes away. Furthermore, he claims that it is easy to run the business as a sole proprietor and that it eliminates the need to negotiate differences in opinions.

The furniture maker also describes how sole proprietorship makes the business much easier to manage, and states that it helps him to stay out of debt. Moreover, he claims that he has a low number of customers, which is why he prefers the single ownership structure. He does not want to enlarge the business to the point that he may be compelled to seek external funding, and is not interested in shareholding because he sees it as difficult to manage.

A manager, rather than an owner, describes how he wishes the ownership structure could be more open so that more people could bring money into the company. His firm has sold shares to a high street bank in order to raise capital to run the business. The

bank owns 10% of the business and this helps the firm when it needs additional operating capital. Before the current bank owned 10% share in the company its predecessor owned 40% shares in it. There is a particular need for this as the company has recently bought a refinery that needs to be run more efficiently. The participant sees it as an important step to move away from sole proprietorship in order to include outsiders who would own part of the business by contributing money.

Figure 12 SWOT Analysis of Business Ownership and Model



Another participant has adopted a stock system, meaning that she can put the company on the stock market when it needs finance to expand or to continue operating in difficult times. She claims that this shareholding system prevents the company from becoming grounded when things are difficult as it can raise alternative finance through the stock market.

2.4.3 Trust and Ownership

Bank (1994) and Kyeremanten (2007) stress how poor management costs SMEs their performance and profitability. In the current study, poor management appears to result from a lack of trust, and the participants who are managers appear therefore not to have access to detailed information about their companies. While the owners view the managers and the staff as untrustworthy, the managers also complain about the owners, accusing them of micromanagement. In all of the cases examined in the study, there is evidence of broken trust between owners and their staff.

The first hospitality owner interviewed emphasises the importance of having family members employed in the business, whom he sees as more trustworthy than non-related employees. He states that family members give themselves more fully to ensuring the growth and development of the business. The statement below shows how little he trusts his employees in comparison to his family members:

It [family involvement] boosts performance of the business. There is mutual understanding among the family, well laid down procedures; more commitment leads to better performance [sometimes we sleep there]. The trust issue is the key. You can't get a[s] good [a] person [as a family member] to take care of your business for you.

A manager in one of the hospitality firms, who participated on behalf of his company, has this to say about dealing with owners:

Eighty per cent of ownership type is killing [frustrating] [referring to family ownership and sole proprietorship]. You can be a manager but not a manager. [Owners] are directly linked to family members. They employ family members, church members and friends. 20% are independent [owned by shareholders]. They [family members of the business] are business-inclined. It's [the firm] an exception in the sole proprietorship. You need their [owners] approval.

This participant speaks of the owner's control over activities in the firm and how he does not give the managers freedom to run the establishment. In the interview material, there is evidence of broken trust between the managers and owners. And it emerges that the excessive filling of positions in the organisation with family members creates an unpleasant situation for the managers.

Another owner participant states that family members are so committed to the business that they treat it like their own life, referring to the dedication someone gives to ensuring the health of their own bodies as being of the same level that family members give to the business.

The furniture maker makes it clear why he has surrounded himself with close relatives who look after all the activities of his firm. He gives all key positions in the firm to his family members, even if they have less experience and perform less well than other employees. He states,

My uncle is the storekeeper, my brother is the foreman and my son is the secretary. It's a trust issue. You can't trust an outsider.

The book maker, on the other hand, relies on a board of directors to make important decisions that affect the organisation, in spite of being a sole proprietor. The printing house still employs his family in the business despite the use of board of directors in making important decisions. The use of board of directors may be a cover. The family is not totally separated from the business as they occupy management positions in the firm.

As Roberts (2004) states, there is concern amongst SME owners about letting outsiders run their firms, as they do not want to run the risk of trusting people who may abuse that trust. This is evident in the disappointments experienced by the chief executive officers of large organisations such as ENRON and WorldCom in the early twenty-first century, where the CEOs abused their positions of trust, giving rise to the need for thorough investigations by the American government. This American corporate scandal led to the enactment of the Sarbane-Oxley Act in 2001. The owners of SMEs, too, may have learned their lessons in a similar way, and are therefore keen to monitor the activities of their managers.

Another negative effect of the over-monitoring and distrust of SME owners in relation to their managers is the creation of a situation whereby the owners become scornful of the capabilities of their own managers. This can even lead to the punishment of managers for small mistakes that would otherwise be forgiven (Roberts 2004).

The manager of one hospitality company expresses his misgivings about dealing with hotels that are owned by sole proprietors. He tells of how he had been working for international, franchised hotels before he came to work for a local family-owned hotel,

and claims that it is very difficult to run a hotel for a sole proprietor because of the extent to which the owners interrupt his activities. By contrast, the international, franchised hotels give their managers freedom to operate within legal boundaries, as long as they get results. This manager's frustration is that he is not able to introduce effective practical policies without the consultation of the owners. He describes the feeling that the owners are constantly looking over his shoulder, and sees the owner's micromanagement as an intrusion into the operation of the organisation.

As Bonazzi (2007) argues, there needs to be an optimal level of monitoring for CEOs of corporations. The owners should put in place a monitoring structure that will contain the managers in their operating roles and also make them accountable for their actions. Fama (2002) claims that managers are not serving the interests of the security holders, i.e. the owners. This may be one of the main reasons that the owners participating in the current study do not allow their managers to use their discretion without their consultation or approval.

Agency theory highlights the abuse of positions by managers and states that the reckless behaviour of managers will have a positive impact on them at the expense of the shareholders or owners (Jensen 1986; Easterbrook 1984 and Jensen 1976). The theory assumes that managers will serve their interest at the expense of the shareholders (owners in the study). Since majority of SMEs do not have well laid rules to monitor their managers or Chief Executive Officers, they fill their companies with family members to prevent abuse of positions by their appointed managers. Since it will be difficult for the owners to monitor what happens at the workplaces they employ family members in the organisations. Owners use their family members to maximise their interest. This is the kind of practice that runs through all the participating firms in the study. The study elucidates how SMEs use their family members to protect their interests.

2.4.4 Target Customers

The customers of the firms participating in the study are quite varied. The manufacturing firms have differing target markets, but the hospitality firms have similar target groups. The latter do not have a niche market, but focus on any potential source of custom for the survival of their businesses, including conferences, festive activities, graduation ceremonies, weddings, tour groups and individual visitors from other countries or regions of Ghana. They do not discriminate between the types of people

that they want to serve, and their facilities are even hired to companies as training centres for their employees.

The manufacturing firms, however, have target markets that they make sure they capture. For instance, the furniture maker targets big companies with substantial furniture requirements and takes contracts from them. Although the company deals with individuals, their primary focus is on large firms, such as Ghana Telecom, the Komfo Anokye Teaching Hospital and the Kumasi Metropolitan Assembly.

The book maker also targets the bigger corporations that offer large and long-term contracts. His firm makes books on a large scale for customers who are ordering on a wholesale basis or for big firms that use a lot of books for their everyday activities. Most of the companies he talks about are large firms which are well known in the region that they operate in. He mentions institutions like schools and colleges, and corporations, such as Paramount Distilleries, GIHOC, Kumasi Brewery and Manhyia Palace. The only individual he has as a customer is a writer who makes a large quantity of orders in the same way as the big establishments.

The soap manufacturer has key distributors throughout Ghana. They make soap on a large scale and distribute it to wholesalers for redistribution on a smaller scale. They are not focused on the individual end consumers so much as on the customers who can serve as distribution channels to those consumers, and have narrowed their market search to distribution agents. This has had both a negative and a positive effect on the performance of the organisation. If a particular distribution channel does not perform well, then the company directly feels the effect of this (domino effect), as does the distributor. If one distributor goes out of business and one of the distribution channels is shut down, then it has the potential to affect the volume of sales and revenue as well as the profitability of the firm. The soap-making company has not been able to explore and exploit the markets in other ECOWAS member states.

2.4.5 Marketing and Promotions

This report groups the marketing activities of SMEs into two categories: orthodox marketing and unorthodox marketing. Orthodox marketing approaches use print and audio media to promote the business, whilst unorthodox methods rely on social networks such as family and friends, school colleagues and churches.

2.4.5.1 The Orthodox Marketing Styles of SMEs

The SMEs that rely on orthodox marketing strategies use radio, television, the Internet, brochures, flyers, billboards and other well documented means to promote their business activities. They also have marketing teams that visit potential clients and sell products to them. These forms of marketing and promotion can have a draining effect on profit, as more resources are spent on getting the message across to potential clients. Some SMEs sponsor programmes on the radio and television in order to advertise their presence; they may also advertise in magazines and newspapers.

The proper use of marketing channels is deemed as one of the ways of increasing the performance and profitability of SMEs. One participant describes a business without rigorous marketing activities as “doing business in the dark”. The participants claim that their performance and profitability benefit more from an open-minded approach to different styles of marketing. The SMEs use their fraternity like churches and past students groups to market themselves. They give contact cards to all attendees of the meetings and make sure official announcements are made at such meetings or conferences.

2.4.5.2 The Unorthodox Marketing Styles of SMEs

In order to advertise products or services, the SMEs that adopt an unorthodox marketing style make use of friends, family members, fraternal organisations and church pastors (who make announcements after their sermons). They may, for example, invite friends to host birthday and wedding parties free of charge at their facilities. The SMEs’ marketing teams target specific organisations identified as potential customers, and visit their premises to do hard selling. In the hospitality sector, the teams usually pitch to members of staff or to chief executive officers of companies, in the hope that they will decide to use the hotel's facilities for conferences and other social activities.

Word-of-mouth recommendations are another unorthodox means by which SMEs make themselves known. Participants who support unorthodox methods claim they are more cost-effective and do not require them to invest resources in promotional activities which could be better used in other areas of the business. Word-of-mouth advertising generates more custom than any of the other methods described above. Participants claim that it generates about half of the business contracts that they receive. One participant states, *“Word-of-mouth and recommendations give us half our businesses.”*

2.4.5.3 SME Perception of Product/Service Promotion

The participants claim that the promotion of their products and services helps them to reach their existing customers and to gain new ones. Their organisations become popular as a result of the effort they put into promoting their products and services, and promotional activities can turn an unknown brand into household name. As one general manager in the hospitality industry points out,

Business without advertising is like doing business in the dark. I want to maximize my revenue [and] at the same time, to reduce costs. I understand business strategies that'll [promote the growth of the hotel]....Our takeaway boxes are embossed with company logos. We brand everything. For example, if you walk into my office I'll give you one of the branded items.

After the interview, the manager gave the interviewer a notepad showing the company logo as a demonstration of promotional activities. This manager emphasises the triple benefit that a business owner gets from promoting his business.

Firstly, the customers will be constantly reminded about the company because of the promotional items they may take with them after staying in the hotel. It is also easy to recommend others to the organisation when satisfied customers have an item which clearly bears the name and address of the firm.

Secondly, it is one of the best ways of indirectly targeting, communicating and informing the general public about the existence of the company. When the public becomes aware of the company they may be tempted to use their hotel if they need an accommodation to stay at.

Thirdly, promotion brings more revenue and profit to the company as new and more customers patronise the hotel. It has the potential of increasing the sales volume of the organisation.

Another participant, who is a director of his firm, also stresses the need to promote the business, believing that this is the only way to constantly remind consumers that it still exists and operates. Consumers may assume that the company is out of production if they do not get any information about it for a long time, so advertising is very important to the success of a business and to staying ahead of the competition.

The participants in the study are unequivocal about the need to put more effort into promoting businesses, about how the volume of sales is increased if a business spends more money in this area and about how the competitive nature of the market calls for effective promotional strategies.

One participant stresses the importance of promotion by emphasising how consumers will try advertised products for the first time and will then continue to buy the products just because they see them advertised. This shows how advertising brings new business to an organisation. It also highlights the fact that a business does not need to be well-established and highly profitable before it starts to advertise its products. Promotion alone brings results in terms of the number of clients and, therefore, improves the profitability of the business.

The participant from the book-making firm describes how they get business through advertising on the radio and T.V. He says that first-time customers usually hear about them there and, after giving them a try, go on to become permanent customers because of the quality of the firm's work.

2.4.6 Price Setting by SMEs

One participant from the hospitality industry describes how he started out by charging for services at a price that was based on the initial valuation of the hotel. Upon realising that these prices were too high, he lowered them to match those of other hotels with a similar star rating.

When hotels set their prices, they take account of the amenities available on their property and they undertake periodic reviews to ensure that they are operating in line with the economic situation in the country. There are a variety of different prices set by hotels. There are corporate prices for organisations that use the hotel premises for training and conferences, and other price brackets for individuals or groups who visit the facility. Charges are reduced if the number of visitors is very high, and fees depend on the number of people in a group. Economies of scale enable hospitality businesses to offset their costs if they have larger numbers of clients, and customers are encouraged to book in large groups so that the cost per head is lower.

Some hotels also use mystery shoppers in order to compare prices with their competitors. They adjust their prices in accordance with the information that they get from their mystery shoppers. One participant from the hospitality sector admits that she

visits hotels where she is not known and that she dines there in order to spy on their facilities and on the quality and type of services that they offer.

Another manager claims that their organisation sets prices based on the ambience of each room and on the view from the windows, as well as on the size of the room and the size and number of beds. Moreover, he says that he regularly reviews the charges in order to reflect inflation and the economic climate. He also charges higher rates for local celebrities. For instance, he mentions that his hotel charges members of parliament much higher fees than it would charge ordinary citizens for the same rooms. There is a celebrity status charge for famous people in the country.

The prices that hotels set for the food that they serve are affected by weather conditions, as Ghana is dependent on the weather for the growth of agricultural produce. This is exacerbated by the facts that food is not grown all year round, in spite of the abundance of both sunlight and agricultural land in Ghana, the practice of irrigation is not very well known in the country, and farmers depend on out-dated techniques that do not increase the productivity of the land. If the weather in a particular year is poor, the agricultural produce becomes very expensive, but when there is an abundance of food, the prices are lowered to reflect this.

The majority of the star-rated hotels participating in the study charge both local and foreign visitors in US dollars. One hotel, however, charges the equivalent in Cedi, the national currency of Ghana, and this feature is used to attract visitors who do not wish to buy foreign exchange at an additional cost.

The manufacturing firms employ different approaches to price setting than those used in the hospitality sector. They factor the cost of raw materials, energy, wages and other additional charges into the actual price that the customers pay. Since they deal in tangible products, they are able to calculate the cost of production with more precision and ease than the hospitality firms can. The manufacturing firms add a small margin to the actual cost price, as well as including tax in the final price that the customer pays.

However, when setting prices, and in spite of making all the necessary cost calculations, manufacturing firms still depend on what the consumer can afford to pay. One of the participants emphasises the importance of the earning power of the customers for price setting. Before they go into production, the company scans the market for the prices of similar products. If the prices at the market are low (as is often the case with imported products), then they have to adjust the inputs they use in

manufacturing their products in order to make them cheaper. This participant mentions his firm's inability to make quality products for the market. To do so would mean running at a loss, as cheaper products are available, and many customers cannot afford to pay the higher cost of the local quality product. Consequently, the firm makes the products to suit the earning power of the consumers, meaning that quality becomes of secondary importance to affordability. The participant showed the interviewer two samples of soap in order to reinforce his argument. One sample was of a very high quality and the other was of a much lower quality. The high quality sample, which was tougher and gave more lather, was also more costly to produce, and too expensive for consumers at local markets. Here is an excerpt from his statement:

Affordability determines everything now. We work from the market to the plant, from market price to the organisation centre. We have to reformulate the product. It's rather what the buyer decides that you sell to him. It's very challenging. You go out there to look at the market and try to do something.

One manufacturer adds 25% to the cost of production after the product is finished, out of which he pays for all of his taxes. He states that the prices of the products change because of the different levels of the materials he uses to make them. He also mentions issues of affordability. Since, as he claims, Ghanaians have low purchasing power, his organisation uses cheaper, second-grade wood for his furniture.

The companies in the study use different methods to set their prices. While the hospitality firms use facilities in the guest rooms, ambience, the direction of the windows and the general facilities in the hotels; manufacturing firms rely more on the purchasing power of the consumers after calculating the cost of materials and labour.

2.4.7 Competitors

In the interviews, the participants from the hospitality industry name one particular hotel (The Golden Tulip Hotel) as their main competitor. Focussing on a single competitor in this way may lead to an underestimation of the competitive threat from other hotels and may significantly limit the range of competitive strategies that are considered. If too much effort is put into imitating the main competitor, other opportunities to attract unique customers may be missed.

For example, the participants show particular concern about the number of rooms in other hotels, because their main competitor has more rooms than other hotels that they do not consider a threat. Yet quality of service, which leads to repeated visits from clients, should form the core area of competitive effort, instead of the number of rooms and the age of the facility. A hotel may be small, but the patronage may be high enough to secure a high profit margin.

One participant believes that visitors choose other hotels on the basis of their budget. He does not appear to consider the fact that people choose hotels based on the quality of services and facilities as well as affordability. He does not demonstrate a sense of the fact that there are a variety of different kinds of visitors. Businesses have their target customers so they may plan to attract such clients. He focuses on affordability or proximity to the city centre as the only possible reasons that a visitor may not choose his hotel.

In the case of the manufacturing firms, imported foreign goods are seen as the main source of competition. Imported goods have a quality, value and price that the local manufacturing firms cannot match. Some manufacturing firms have gone out of business having lost the market to importers; others are unable to continue production at a loss. As we have seen, the soap maker allows quality to be a less important value and instead produces soap at maximum affordability. There are local competitors in the soap industry, such as Ameen Shangari, P.Z. and Juaben Oil Mills, but the importers are the main competitors.

In interview, the book maker expresses his displeasure about unregistered book-making companies that tout for business from his clients. He claims that these unregistered companies are his major competitors because their activities are untraceable and they do not pay any taxes to the government. Unregistered book makers make books at almost half the price of the regulated book makers, so customers prefer to deal with them. The government is finding it quite difficult to clamp down on clandestine operators, and as a result, many registered book makers are struggling to survive.

In the furniture-making sector, there are a large number of small companies because the initial capital required for this sort of enterprise is low. The furniture maker participating in the study portrays all other furniture making companies, whatever their size, as competitors. He strives to cover all the different areas of the market as every furniture maker is a potential competitor, as far as he is concerned. He is not selective

and accepts any business contract he is offered. He takes contracts from all and sundry in the country as far as it will give the company money. He is not interested in creating a niche market for his company. He is driven by survival needs of the company.

Most of the firms are owned by individuals. They are happy with the ownership structure they currently have. They claim it is easier to manage and not fraught with legal challenges. They are the offshoots of their parent companies with the exception of the manufacturing firms which are themselves parent organisations. They do not have any niche markets. Since they do not have a niche market it means they are competing with the entire market. This may imply they are much concerned about their survival. The study shows marketing to be a formidable tool to good performance and companies need to invest in. The next section looks at the impact of government policies on SMEs.

2.5 Government Context

This section is dedicated to the government and the effects of its policies on the activities of SMEs. It also describes the views of SMEs about government policies.

2.5.1 Appropriateness of Government Policies

SMEs participating in the study display mixed responses regarding the appropriateness of the policies they have to deal with. Some of the responses are positive, but the majority of the participants express misgivings about the usefulness of the government's policies to their firms. To some extent, the participants view the policies from a selfish perspective, considering only the benefits they wish to derive from the government. Clearly, the government needs taxes to run the economy, but the SMEs argue that the taxes are too high and do not commensurate their profits or the nature of the business in which they are involved. As stated by one owner,

I remember that the GIPB [Ghana Investment Promotion Board] came out with a laudable policy if you applied [loans] through them. You'll not pay corporate tax for 7 years. It gives you room to recover your [operating] costs quickly

The participants state that they would like to have a more convenient tax system that would benefit them and would also be easier to pay, and almost all of them express fear about the increase of taxes by the government, resigning them to failure should this occur. They claim that the government not followed the initial policy on the formulation and implementation of taxes imposed on SMEs.

Some of the participants assert that the government is unaware of the challenges faced by SMEs, because they are not consulted about the taxes the government introduces. One issue that comes up often in interview with participants about the government is the blanket implementation of the International Monetary Fund (IMF) policies. The SAP by the World Bank has come under severe criticism by some authors. Kagame (2010) asserts that one-size-fits-all development and democratic prescriptions which are imposed on Africa is the detriment to the health of African economies.

The manufacturing participants are predicting (prematurely) the collapse of the industry, as firms are unable to compete with the cheap but quality western products which now flood the market as a result of the free trade agreement among countries that are signatories to the IMF and the World Bank Trade Liberalisation Policy. The manufacturing participants in the study are disappointed that the government allows goods to be imported into the country without regard for the impact on the activities of local manufacturing businesses (Guide 2010). As one participant states,

It's not helpful. You see the government is helping [introducing good policies] but they have not consulted with the local industries. They just come out with IMF policies. It is like if we're able to survive we survive [nobody cares for your business survival].

In addition, the participants feel that the government policies designed to protect them are ineffective. They even feel that the inadequate protection they do get from the government makes them more vulnerable in the face of the poorly regulated but abused access by importers to the Ghanaian market. The already fragile SMEs in the manufacturing sector wish that the government would take up the challenge to protect them against predatory Chinese and Malaysian organisations and importers. The manufacturers are not able to compete with the cheap mass products from the developed world. The soap manufacturer is critical of the import of soap from the developed countries. Brownbridge (1995), Mensah (2004) and Group (2007) criticise the poor regulatory framework for SMEs in Ghana.

One participant, however, shares a different opinion from the others. He claims that taxes from the government are helping with the successful operation of his organisation. He argues that although the government does not tell the tax payers about how beneficial the taxes are to them, he sees the taxes he pays as helpful. The government is clamping down on illegal printing houses which evade taxes and this

makes them become competitive at the market. If some printing houses do not pay taxes they are able to sell their books cheaper at the market to make more profit than the ones paying taxes.

2.5.2 Corruption

The issue of corruption is also raised by some of the participants. It is claimed that import taxes are badly abused by importers; the importing of soap and textiles from Malaysia, for example, is highly criticised by the participants, who attribute the collapse of these two sectors to companies taking advantage of IMF policies. They purport that border control is inadequate, soap from Malaysia gains access to the Ghanaian economy, making it difficult for Ghanaian products to compete.

One hospitality firm owner blames such corruption on government officials. She claims that SMEs do not receive any of the foreign aid sent by the West to the developing world, and that it is instead shared among high-profile government officials. As a result, she says, the people who are really in difficulty and who should be in receipt of the foreign aid often receive no benefit from it at all. She believes that the government should put some of the money into developmental programmes that would benefit SMEs.

2.5.3 Challenges Facing SMEs in Ghana

Power shortages in Ghana have been described as one of the difficult issues for hospitality firms, especially as the number of foreign visitors to Ghana increases. The good practice of democracy in the country, the showing of tourist attractions by the government and the recent discovery and production of oil have attracted foreign visitors to Ghana. The owner-manager states that the cost of running generators during such shortages affects profit margins.

One manufacturing participant claims that his biggest challenge is his lack of knowledge about ICT and his consequent inability to use it at work. He is aware that this slows down his data management processes, and admits that he is unable to keep proper customer records. In addition, as he does not know how to use the internet, he states that he is limited in his ability to conduct to communicate with his customers and learn about the new developments in his sector.

2.5.4 Data Storage Methods

Previous studies state that information asymmetry is very common among SMEs (ORUC 2008; Berger 1995). This is especially true of the manufacturing participants, as they make limited use of the new technological advancements provided by the internet. They can make orders for their raw materials and track their purchasing records easily if they make use of the advanced tracking tools or applications online. The hospitality firms, however, seem to be more familiar with the opportunities that technology offers their businesses. According to Taylor (2010: 1), manufacturing firms spend less on their IT needs, with IT taking up only 1% to 4% of their budget.

The hospitality firms show more use of ICT than the manufacturing firms studied, and use the internet for both business and social activities liking updating friends and family about their lifestyles (although business use dominates). They use ICT for communicating with clients, for booking rooms and for storing and updating their client records and other business records. They also use ICT to keep track of the activities of clients and to get feedback from them as well.

The manufacturing firms, however, make limited use of the ICT facilities at their disposal. They use ICT for business purposes alone, such as for ordering materials. One of the manufacturing participants does not use ICT at all in the running of his business, but continues to rely on paper, folders and drawers in order to store information.

The hospitality participants appear to be more organised than the manufacturing firms regarding the storage of information, as they each have dedicated ICT teams which are responsible for the data of the organisation. The manufacturing firms, however, do not have specific employees responsible for information about the companies and their customers. In general within the manufacturing firms, the secretaries are in charge of ICT.

Government requirements regarding information storage are different for the manufacturing firms and hospitality firms. For instance, manufacturing firms have to keep records of the materials they buy and the number of people they employ. Hospitality firms have to keep information about the nationality of visitors, the purpose of their visit and the number of days they stay at their hotels.

2.5.5 Effect of Government Policies on SMEs

Some of the participants assert that government policies impact heavily on the performance and profitability of their businesses. They mention examples such as changes to government water and electricity tariffs, which negatively affect their businesses' operations. Tax hikes are also seen as one of the negative policies in the country. The random increases in taxes have become a barrier to the growth of profits in the manufacturing industry in Ghana, which makes them more vulnerable to outside economic factors. Their products compete with imported ones so if the cost of production is high then their products cannot match the prices of the foreign goods in the country. Different governments come with different policies, and this also negatively affects the business activities of SMEs. They are not able to take control of their activities as they are not sure of the stability of the tax situation in the country. Furthermore, there are too many tax-collecting institutions in the country, and they are not properly regulated and monitored, meaning that taxes may go to individuals instead of to the government.

One participant argues that the willing tax payer pays more because many firms dodge taxes, and states that the government therefore lays the entire tax burden on the few law abiding firms in the country. Furthermore, the tax system is very narrow and does not cover a wider section of the industry. The government does not have the required manpower and logistical resources to track all businesses in the country. The existence of a firm is recognised only if it pays taxes, and the majority of SMEs evade tax without the government catching them.

One participant in the manufacturing sector complains about the ineffectiveness of government policies because of inadequate supervision. He complains that globalisation is killing many of the manufacturing SMEs in Ghana as they are not able to compete with foreign goods.

The majority of SMEs, however, see the policies of the government as effective because of the harsh and non-negotiable way in which the government operates. This is because that is the only way to get them to abide by the rules although it may lack diplomacy. The sentencing and prosecution of offenders are seen by SMEs as an effective way of ensuring that the policies are followed, but in reality it is not working because there are not enough controlling mechanisms in place to rope all the SMEs into the wide tax net. The government closes firms down and imprisons tax defaulters if they are found, and

this ensures firms pay their taxes, but the actual mechanisms to make the policies effective are lacking. It is only those who are caught that are prosecuted.

One manufacturing participant is happy with the government policies and believes that they are helpful for the development of his employees. For example, the government has enforced the use of gloves among workers using chemicals, the creation of changing rooms, and the payment of social security contributions. The government makes occasional unannounced visits to companies to inspect the firm's activities, and the participant sees this as very helpful, stating that it also builds the morale of the employees, who perceive the introduction of welfare measures as a sign of recognition and good treatment by the firm. Indeed, a healthy worker reduces employee turnover and absenteeism and increases productivity at work.

Most of the participants blame government policies for the poor performance of their businesses, claiming that the policies take away their money so that there is nothing left to show as profit. They also feel that excessive tax increases reduce their profits and have significant effects on the performance of their businesses.

Some of the hospitality participants praise the government for introducing a hospitality curriculum to the tertiary educational institutions of Ghana, claiming that this helps the institutions to produce quality graduates in their field of operation. These graduates are more professional and contribute positively to the development of the hospitality industry.

The participants state that what they most fear is having their businesses closed down by the state agencies in charge of their outfits if they fail to comply with the rules and regulations of the Government of Ghana. This fear forces them to abide by the rules and regulations of the government policies. They play down the importance of fulfilling their tax obligations to the state.

2.5.6 Strategies for the Enforcement of Government Policies

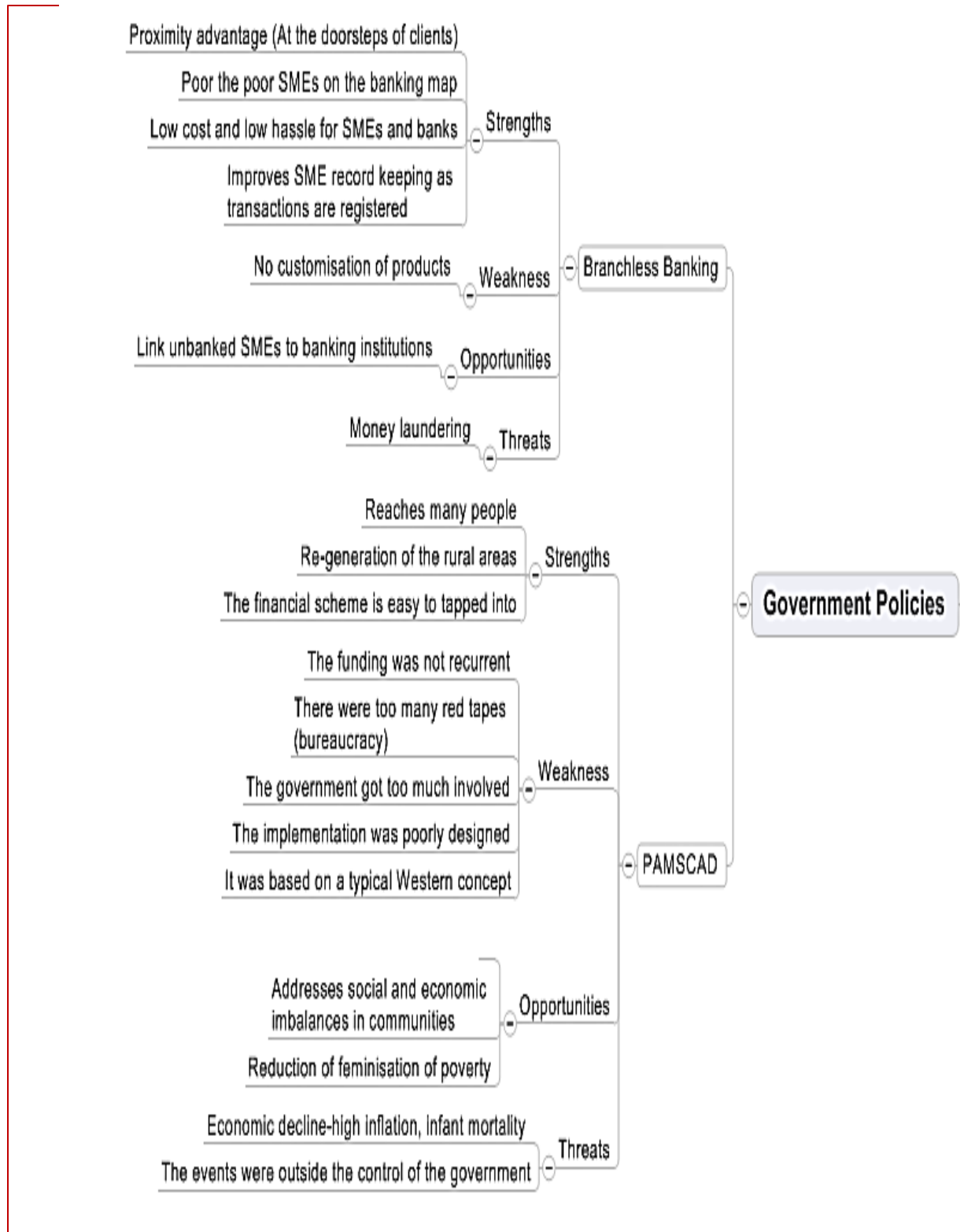
The government uses the renewal of TV licences, unannounced visits to the premises of the businesses, Value Added Tax, etc. to generate taxes and to get its message across to SMEs. If a firm fails to pay its taxes to the state the agency responsible for issuing certificate of incorporation will liaise with Ghana Broadcasting Corporation (in charge of TV licence) to refuse the defaulted organisation broadcasting rights when it applies for broadcasting licence. The government agency which takes charge of VAT certificate

refuses to renew the certificates of defaulting organisations to prevent them from operating as legal entities as failure of renewal is punishable by law. The Ghana Tourist Board (GTB) uses its power to enact policies that help the industry as a whole, and will also de-star hospitality firms that are not abiding by the rules of their industry. This is a sign of poor performance and affects how much the de-starred hotels can charge clients. In extreme but unusual cases of excessive flouting of the law, hotels are struck off the register of recognised hotels in the country and banned completely from practice until they have made significant changes to their operational activities and until the inspectorate division of the GTB has re-inspected their facilities.

The manufacturing firms participating in the study claim that it is difficult to pass the initial test that gives them the right to operate their businesses. Before they are issued with licences to operate, the Ministry of Manpower and Training (MMT) first inspects their facilities to check that they meet their standards; the Factory Inspectorate and the Ghana Standard Board also conduct various inspections of each site to make sure that they are suitable before the firms are allowed to begin operating. The Ghana Fire Service (GFS), Environmental Services, the Food and Drugs Board (FDB) and the Ministry of Health (MoH) have also been incorporated into the team of inspectors.

The study shows that government policies could help SMEs to grow if they are properly implemented. The publisher underscored how the newly introduced government policies affecting the publishing industry have brought sanity into the market. Other participants hailed the policies as helpful to SMEs but the corrupt government officials are being blamed for the failure and poor execution of such lofty ideas.

Figure 13 SWOT Analysis of Government Context



2.6 Age and Size

The section discusses, in the context of the current study, whether or not age and size may be used as indicators of the performance and profitability of SMEs, and looks at the achievements of the SMEs participating in the study. Size can be measured by market share, level of sales, and number of employees and value of capital employed by the firms. The study uses number of employees to measure size because of its simplicity, easiness and accuracy in determining results. The researcher assumes firms employ more workers when there is more work to be done. Awards so far received by the participating firms are being included to measure the perceptions of the communities about the firms. Achievements are also treated as a category of performance and profitability as it highlights the success of the objectives of the firms in the study. In the study, the achievements are treated as representing the external recognition or views of the firms' successes.

2.6.1 Does Size Matter?

Size can be an indicator of performance and profitability if the increase in employee numbers is because of increased workload which translates into the profit margin of the company. When a business is relying on non-sophisticated machinery to operate size could be used as one of the determinants of its performance. The number of workers in the firm will be based on how it is performing in the market. For instance, if the firm supposedly employs more hands to meet the product demands then it may be termed as doing well because its performance is tied to its production. While if it is not able to increase its size to match available market demands then it is not performing well. A business' performance and profitability can be assessed based on the size of the workforce if it is a labour-intensive.

On the one hand, it can be treated as having no significant impact on the performance and profitability of a company if a company turns to technology to become more efficient and therefore reduce the employee numbers. One firm resorted to advanced technology usage to cut down the size of the workers but was performing well. Nonetheless, a firm can maintain or reduce its workforce but be doing very well if it makes technology the backbone of the business. A firm can use technology to cut cost and increase productivity per human capital. Capital intensive firms are less labour intensive and cannot be assessed with the same criteria that are used for labour

intensive firms. One firm in the study cut down the size of its workforce after it started realising the benefits of using capital intensive machinery.

In the study, it is assumed an increase in staff numbers is a sign of good performance as it indicates more works to be done so that it reflects in the profitability of the company. The firms that show increases in staff numbers are exhibiting good performance since the use of more workers are demonstrations of higher demand of products. The more workload a firm has the more customers it has and this shows how widespread and accepted the firm is becoming in the market. Size is not an absolute indication of performance because the use of advanced technologies has been a characteristic of some SMEs in the study.

A company's size does not necessarily determine the performance of the business. There are many reasons for which a company may decide to either increase or decrease its number of staff. One hospitality participant reduced the number of employees working in his firm because the company had employed more workers than he needed when the hotel was opened. Their initial decision to employ about 54 workers had been based on the estimate of a consultant they employed to work out the staff needs, but upon the commencement of business, the owner realised that they needed less workers. He therefore laid some of them off in order to cut costs and increase efficiency and effectiveness in the workplace. The firm now numbers 34 staff. This is an example of staff numbers being reduced for a reason unrelated to performance.

The 2007-2009 global credit crises provide another example. At the time, many companies retained staff despite a lack of work, in anticipation of the economy improving. In this case, poorly performing businesses may have continued to employ relatively large numbers of people. As with the previous example, this highlights how unrealistic it is to link performance and profitability too directly with an SME's size in terms of number of staff.

One manager participating in the study states that he does not know how many staff his company was employing when he took it over. He knows that the current staff number is 55, but does not know if this has increased or decreased during his time running the firm, as his predecessor left no official records for him. Again, this is another case in which it is impossible to assess a firm's performance based on staff numbers. This is also a sign of the poor record-keeping habits of SMEs, as discussed in Chapter 1 of the Literature Review.

Authors such as Vijverberg (1991), Daniels (1998), and Gibson (2002), however, believe that there is a link between a firm's size and its performance. They purport firms that increase in the number of workers is doing well. This assertion is supported by some of the participants in the current study. One of the manufacturing participants, for example, who describes how his business has grown from one man in 1976 to 75 today, assumes that this is a sign of good growth, and therefore an indicator of performance.

In addition, one of the hospitality participants started her business with twelve people and now employs 30, as a result of growth in the number of visitors. In this case, it is quite acceptable to link staff numbers to growth or performance, as the more visitors a hotel receives, the more workers will be needed to wait on them.

Furthermore, the book-making firm began with five workers and has grown to 20 due to an increase in the amount of work to be done. In this case the increased work, and therefore the increase in the number of employees, can be considered as evidence of good performance.

There is no universal indicator for measuring performance because businesses have different challenges. One manufacturing participant explains that his firm switches between growth and reduction in staff numbers for external reasons, such as changes in the government or economic factors. He states that he rarely dismisses workers, but that workers sometimes leave voluntarily because of poor wages. He admits that he is unable to cope with the economic changes in the country, and that this has affected the performance of his business. This is a sign of poor performance as the business is not doing well as it should. In this particular instance, size is a good indication of performance. The participant did acknowledge his inability to perform very well at the interview.

The measure of performance and profitability of firms differs from a firm to another. While capital intensive firms may employ fewer workers, labour intensive firms may employ more workers. To use size as an indication of performance and profitability the researcher uses different criteria for different firms. Some considerations are given to firm-specific factors when the researcher is using size to measure performance of SMEs in the study. Size did not prove to be an absolute indication of performance in the study.

2.6.2 What Contribution Does the Age of a Firm Make to its Performance Profitability?

An analysis of the interview data gives a mixed impression of the impact that the age of a business has on its profitability and performance. While some of the firms grow in size and become more profitable as they stay in business, others perform increasingly poorly over time.

One hospitality firm has had to downsize its staff because of its increased use of technology. It is not always the case that if a business is downsizing then it is not doing well. As it happened with one hospitality participant in the study, he cut down his workforce because of the introduction of technology. Size as much as it can be used to determine the performance of an organisation does not give an accurate answer to measuring the performance of an organisation. The hospitality made more profit because of the use of technology but reduced the size of the workforce.

The majority of the firms that took part in the study have shown an increase in the number of employees over time. The older firms are better established and have a more solid customer base because of the depth of their knowledge about their markets. However, participants also complained about their inability to achieve the target growth that they had planned, or to match changes in the economic climate. More manufacturing firms shifted blame on the Ghanaian economic climate despite their longer existence.

Firms which are old have better knowledge of the market, good track records and have survived teething problems that are common with new SMEs (Robson and Obeng 2008). Older firms usually have large market share and established good reputation which when taken advantage of can contribute to positive performance. Nevertheless, the sustainability of that performance and profitability depends on a combination of other factors, such as the contribution of human capital, the circumvention of political and legal issues, and investment in efficient technology. Even though age may play to the advantage of well established firms, their inability to adapt to changes in the real world could offset such advantages. The manufacturing firms are more liable to this problem. In the study, the soap-maker expresses his misgivings about globalisation because he accuses the government of allowing trade liberalisation which is contributing to the demise of many manufacturing SMEs as they are not able to compete with foreign products in quality and price. The furniture maker also emphasises his lack of ability to meet the challenges in the market which have resorted to him paying his workers less

wages. The turnout rate in his organisation is high because the workers are not getting good wages. Despite the number of years they have been operating they are not reaping the advantages (market knowledge, custom size and cheap sources of supplies) that longevity brings. They are not learning organisations because they are not improving the operations of their businesses which many years in business can offer them.

The number of years during which a business operates does not guarantee an increase in its performance and profitability. Despite the advantages that longevity offers firms, they are more likely to perform poorly and lose money if they do not regularly update their operational activities in response to external political, economic, social, technological, legal and environmental factors.

Johnson (2007) emphasises that business closure may have no direct link to business performance, due to the many reasons for which a firm might either close or reduce its number of workers. One hospitality firm planned to close because of the high interest rates on loans she acquired from her lenders in spite of the owner being optimistic about her organisation's performance.

As is demonstrated by the soap- and furniture-making firms that participated in the study, ageing firms not only have to overcome the trials of an unpredictable socio-economic climate over time, but they also regularly face challenges from new and aggressive competitors. This requires that they constantly reform their business practice.

2.6.3 Achievements of SMEs

The participants see diversification as a sign of achievement. One hospitality participant has been able to raise enough money to establish another hospitality firm in another part of Ghana. The soap manufacturer states that his firm's company ranking among soap-making organisations is a good sign of business success. This may not be the case, however, as the other companies may be underperforming. Therefore ranking is not an adequate measure of a company's performance, particularly because different companies have different resource needs and objectives, and therefore different criteria may be used for the rating of different organisations. The criteria may favour some companies more than others, and some companies may tailor their operations in order to suit the rating bodies while others may perform well without meeting the rating bodies' criteria.

One hospitality participant, who is new to the sector, cannot single out any particular achievement that she has made so far, but prefers to define her achievement in terms of networking with other hoteliers, getting to know clients and tapping into their business contacts, which has been occurring during the process of establishing her organisation. She uses social media like Facebook to reach out to them and advertise her hotels to clients' contacts on the social website. She finds opportunities in meeting people as a sort of success because the conferees bring different things to the life of the firm. Thus networking can be seen as a kind of achievement, because it is through networks that most business contracts are gained.

In another case, one manufacturing participant (from the furniture-making firm) considers his achievement to be manifested in the material things that the company has been able to do since he started the business. Below is an excerpt of his perception of achievement:

I started my own business after working for three years. I've built eight houses [for myself] and [built another] four houses for my senior staff [workers]. I'm able to combine construction with carpentry. I have acquired two acres of land and built a factory. I've built a workshop, administration block and workers' flats. I need financial capital to move forward.

The book manufacturer, on the other hand, perceives achievement in terms of the number of awards the firm has received from the various recognised awarding bodies in Ghana. The firm was voted the best publishing house of the year in 2004, 2005 and 2007 by the King of Ashanti's awarding institute (Otumfuo Excellence Gold Award), and the Best Winner for Excellence by Ghana Book Development Council in 1999.

The participants each pointed to different indicators as signs of success, which emphasises the idea that success comes in different forms and that different organisations do things differently for different purposes. Achievement is a relative term and is not transferable between organisations, since success in one organisation may be perceived as failure in another.

In the current study, age and size do prove to be an indication of performance in some cases. In the case of firms that use more technology they have fewer workforces than their labour intensive counterparts. In most cases size determines the performance of the participating SMEs. Majority of the firms increased in size as they stayed longer in

the business. The manufacturing firms which are much older than the hospitality firms had more to show in terms of achievements or recognitions in societies. Some of the older firms have more challenges coping with the current economic environment in the country. They clamour for assistance as they are struggling to stay in business despite having the advantage of being old (market knowledge, loyalty of custom, established track record and managerial experience). Age and size is a two-way street that depends on their application to the activities of SMEs. There is huge conclusive evidence(s) in the study to pinpoint to show that they are always an indication of performance and profitability although more SMEs show exceptionally increased performance while their workforces decreased with advanced years. The next chapter is a discussion of the issues raised by the participants in the study.

Chapter 3

Discussion

This section of the thesis looks into the ways and means by which the human and social capitals, sources of finance, age and size, business model and government context have an impact on the dependent variable (performance profitability and growth). It also gives a general impression of the inclination of various study participants' ideas/perceptions evident as a result of the research.

3.1 Research Questions and Discussion

This chapter offers a detailed examination of the conditions that enable SMEs to survive in the economic environment of Ghana, based on the main objectives of the study (see research objectives in Chapter 1 of Project 1). The chapter also looks at the ways in which the seven detailed research questions have helped shape the study, with particular reference to the findings from the interviews conducted.

3.2 Social Capital

This section looks into the impact of social organisations on the SMEs that are members of them. The firms participating in the study belong to associations which are directly trade related and which help them to circumvent harsh and unhelpful government policies, thereby cutting the operating costs of their businesses. The government wants to apply the same domestic television licence policy to the hoteliers. The association acted on behalf of the members to request for different but more suitable deals on hoteliers' licences. Private homes pay a standard fee while the government wants to charge the hoteliers based on the number of televisions in their facilities. The licencing policy would have put more tax burden on the hoteliers so the Hoteliers Association of Ghana negotiated for a fixed rate for its members.

When an SME becomes a member of the wider trade community, it enjoys the benefits associated with such an organisation. In the hospitality sector, for example, word-of-mouth and the sharing of overbooked clients enable less profitable SMEs to improve their performance through an increase in custom that they would never have had if they had not joined the trade organisations. They may also tap into the social networks of other members when they need assistance like advice and location of resources. As one participant claims, the firms seek help from one another.

Thus as a result of joining social networks, the performance and profitability of SMEs are likely to improve as the firms enjoy the free services provided by these social organisations.

The meetings of social organisations provide the opportunity for idea sharing, which helps SMEs to better their businesses. The challenges encountered by the members of the social organisations are discussed, for example, and solutions are suggested which the members then implement in order to enhance their performance. These meetings are free, and thus money which might otherwise have been used in paying for advisory services is retained by the firms. The reduction of costs as a result of these free consultation services means that the profits of the member SMEs increase, and thus the participants of the study have noted that social organisations help SMEs to become more profitable.

Hospitality firms in particular benefit from social networks, because of the nature of their business. Whilst manufacturing firms have more need of costly tangible assistance, such as physical help and equipment, hospitality firms need more advisory services. This means that they are able to get help more quickly than their manufacturing counterparts. They do not need costly equipment from their counterparts in the hospitality business. While hospitality firms can share overbooked clients, this is not likely to occur between manufacturing firms, as it may cause a permanent loss of custom. The manufacturing firms deal with wholesalers and retailers alike. If a referred customer is satisfied with the product of the recommended manufacturer he may not go back to his former manufacturer as the products are easy to compare because they are tangible. The products can be touched and felt in advance before making any decision on purchasing when the buyer wants to buy again. It creates room for comparison and gives the buyer an opportunity to decide in advance and make well informed decision.

The study shows the benefits of social organisations to those who join. The cost of running a business is reduced because participating SMEs gain free services which will cause them money if they were not part of social organisations. The study also showed how the manufacturing and hospitality firms derive different benefits from being members of social organisations. A discussion of the impact of sources of funding follows this section.

3.3 Sources of Finance

The majority of the participating SME owners started their businesses from their personal savings. The few owners who started with credit from the banks were already involved in other businesses before they started their present businesses and had built up credit records which enabled the banks to offer them credit. The emphasis of borrowing money in the study is on the SMEs who borrowed money either to start their businesses or as operating capital.

Several of the firms participating in the study express their disapproval of the use of loans to start or operate a business. One hospitality participant was particularly angry about her experience with the banks, as shown in the quote below:

I work for the banks. After paying my workers, electricity, water and tax bills I have nothing to show because the bank takes all the money.

The sources of finance greatly influence the performance profitability and growth of the firms. In the case of bank loans, money which could otherwise be put back into the businesses is paid as interest, leaving the firms with little profit. Several manufacturing participants state that the interest rates on their loans are too high and that they struggle to stay in business as a result.

In addition, as lenders want quick return on their loans, the time allowed for repayment is very short. This makes it difficult for borrowers to embark on projects which would give higher yields in the long term, and may also prevent them from investing in equipment which would bring higher performance returns in the long run. On the contrary, the lenders take longer to approve loans. By the time, the SMEs get the loans the purpose (market demand of their products) for which they requested the loans might have waned.

Thus it is clear that borrowing has a negative impact on the performance and profitability of the SMEs participating in the study. Whilst SME owners who do not borrow money to start or run their businesses enjoy more profit and can invest in long-term projects with higher yields, the borrowers miss all these benefits as they are forced to focus on repaying their loans. The SMEs in the study do not mention or discuss any other lenders aside the high street banks as their main financiers. It may be because the loans being provided by the microfinance institutions may not be satisfactory to their financial needs. The effect of human capital on firms is the next topical subject.

3.4 Human Capital

This section examines how staff can impact the performance profitability and growth of participating SMEs. The employees are divided into two, the professional and the non-professional. The professional workers are those who are formally trained in the work they are doing while the non-professional ones do not have formal training in the jobs they are doing. The perspectives of the participating SMEs are used in order to assess the contribution of professional and non-professional workers to the businesses.

Professional workers are seen as having an unparalleled role in the performance profitability and growth of businesses. The firms participating in the study state that they cannot function without professional workers, who are more skilful and experienced and can initiate activities without the supervision of the senior managers. The work of professional workers is linked to the success of the organisations as they can control all the decision-making and resource organisation of the companies to achieve the objectives of the companies.

Better performance leads to greater profit, and professional workers are seen by SME owners as an embodiment of profitability due to their contribution to the firm's production. Furthermore, whilst it costs more to train non-professionals, the professionals come to the company with already acquired skills. Thus money that would have been spent in training non-skilled workers can be reinvested in the business. Professional workers cost less in the long run as they contribute more to the growth of the companies while non-professional workers cost less in the short term but more in the long term. Huge resources (human and financial capital) are devoted to train non-professional workers and so cost the companies a lot.

The professionals are essential to SMEs because they are able to keep the business running and to make decisions in the absence of the chief executive. Because the integrity of professionals would be at stake in the case of business failure, and since they are judged by their contributions, they do all they can to ensure the success of the firms in which they work. Bad firm performance could be attributed to the poor quality of workers in the organisation.

One participating owner insists that non-professionals have less to contribute, because they would not be able to fill the role of the professionals should the need arise, whilst professionals can fulfil the role of non-professionals when and where it is needed. The SMEs use the non-professional workers to do the tasks which do not require any formal

training and in some cases as a way of saving money where SMEs do not have the financial capacity to hire professional workers.

It is clear that performance profitability and growth are directly affected by the quality of the staff involved in the business. The more qualified the staff, the more profitable the business as time and money are saved and attention is directed to other areas of the business that need help. Thus companies which employ professional staff perform better than the ones which rely more on non-professionals. One hospitality owner reiterates how a non-professional worker made a client unhappy and how it nearly affected their custom. The discussion shifts focus to business ownership structure in the next section.

3.5 Business Ownership and Model

Most of the owners cite financial security as the primary reason for establishing their businesses; this may have been motivated by the lack of financial security at old age in the Ghanaian society. While the setting up of firms is demand driven in some cases, some of the SME owners set them up as their source of income in their old age. Unlike the situation in the developed world, most owners of private enterprises in Ghana do not receive social security and therefore have to look after themselves in their old age.

Most of the SMEs participating in the study are owned by individual families. The principal owners of the firms do not want to bring in external partners and rely on their families for assistance.

However, the involvement of family with business has both positive and negative effects on the performance and profitability of SMEs. On the positive side, family members generate finance and monitor the operations of the company against fraudulent activities of the employed managers. This ensures that businesses do not become victims of recklessly careless and callous managers who are determined to make money for themselves, to the firms' detriment. Managers can make understated invoices which do not reflect the actual amount they charge clients. Family members often help with financial management, detecting unprofitable investment activities and therefore improving profitability and performance. One interview participant, an owner-manager, states that family members take more responsibility for his firm, as they are aware of the firm's economic importance for themselves.

The downside of the involvement of family members in small- and medium-sized businesses has to do with some family members' lack of knowledge regarding business management. The recruitment of unqualified family members tends to lead to poor performance, as shown by most of the firms participating in the study. One hospitality manager emphasises his frustration over his inability to make bold decisions because the final authorisation always comes from the family. Furthermore, as families often want to fully control the business and fear external involvement, family-owned businesses are often kept in the state they can fully manage. In addition, managers may feel they are under pressure from family members to accept their authority, leading to the poor performance of the firm as the family members actually lack the skills necessary for such a position within the firm.

Thus the use of family members as a part of the business team often stifles development and innovation. If SMEs could invite external parties, they would be more likely to bring in not only external but also quality human resources and expertise, and would benefit from the more diverse experience on offer as a result.

The hospitality firms are all family-owned while manufacturing firms are sole proprietorships. The family-owned businesses could be very risk-averse, and owners do not allow their managers to make decisions without their authorisation. While the owner-managers claim that owners' involvement in their firms' everyday activities helps the firms to function in a profitable manner, the managers who are employed to run the businesses hold negative views about the ownership structure of the businesses. They believe that the micromanagement of the employees by the owners impedes the profitability of the businesses as it affects the decision-making time for important projects, which can result in a loss of customers or business leads that would otherwise translate into increased profit and performance. They also believe that their lack of independence limits innovation within the companies in which they work.

The study findings indicate that the ownership structure of a business can hugely determine the performance profitability and growth of an organisation. The next section discusses the impact on government policies on performance of businesses.

3.6 Government Context

Opinions are very mixed regarding the suitability of government policies aimed at SMEs. Whilst some of the SMEs regard the policies (free importation of hospitality items and tax holidays) as helpful, the majority claim that they are responsible for the dearth of

SMEs in the country. Their initial perception of the policies, such as the free importation of hospitality products to the country, were laudable but the corruption in the country impedes its proper implementation as hospitality goods get stuck at seaports until they have given the authorities kickbacks/grfts before they are allowed to get them.

The study findings indicate that the government policies are very influential in determining the performance profitability and growth of SMEs. The policies can reduce the operating costs of firms, if they are followed through by the government agencies. The money that will go into taxes will be used to cover operating cost like goods and services for the hotels, pay staff wages and pay electricity and water bills. Yet corruption hinders some of the policies that have been introduced by the government in order to entice private investment in the hospitality industry. For instance, the introduction of free importation charges for hospitality firms has been abused by the very government agencies that are in charge of it. If they were properly implemented, they would reduce the cost of running a hospitality firm in Ghana, and would therefore allow the maximisation of profits. All hospitality items imported into the country are tax exempt. These items which are designated for hotels are to be allowed into the country without any tax levied on them. The hospitality firms all favour the government policy that ensures all hospitality products are exempted from import duties but they are critical about the implementation.

In the case of the manufacturing firms, the introduction of free trade for ECOWAS member countries has not been fully taken advantage of. The SMEs do not have the capacity to extend to the outside market because of high cost of raw materials. Thus sometimes, the enabling environment is created, but the companies are unable to benefit from the opportunities that the government has created.

The owner of the book-making firm talks about the government's efforts in clamping down on illegal book-makers who do not pay taxes to the state. The genuine bookmakers are able to make more profit and to perform better, since the bogus ones are weeded out of the system. The book maker favours government policies of ensuring good and trusted companies operate in the printing industry. Furthermore, the issue of competition with foreign companies is of much concern to the manufacturing firms participating in the study, who consider themselves unequal to such competition. The foreign companies are in a much better position than the local businesses, as they operate on economies of scale which make it cheaper for them to produce high quality goods. The flooding of foreign goods into the Ghanaian market hinders the growth of

local businesses, which lose the market share to the foreign businesses. Thus the foreign companies take away the market capacity of the indigenous firms.

The poor infrastructural facilities in Ghana also impede the profitability of the firms, who state that they regularly experience power outages in the country. In addition to the inconvenience caused to their operations, the money spent on petroleum products in order to keep running their businesses during power outages affects their profitability.

In conclusion, while some participants in the study blame the poor performance of their firms on hostile government policies, others praise some of the government initiatives. The discussion of impact of age and size on the performance profitability and growth of SMEs comes next. The chapter ends with a summary of the key issues that appear in the study.

3.7 Age and Size

Most firms have demonstrated growth in size over time. There are indications that the longer they have been in business, the more staff they employ, but the study provides inconclusive evidence on age being translated into profitable performance. It is clear, however, that staff numbers and profitability are not always directly linked: in one example, a participant speaks about having to reduce staff numbers because of an increased reliance on technology, despite signs of profit in the business.

However, for hospitality firms, the study findings suggest that growth in performance and profitability cannot necessarily be attributed to the age and size (number of workers) of the business. In the case of the manufacturing firms, nonetheless, age and size are a direct reflection of their performance and profitability because they produce to meet the market needs or customer demands. As shown above, however, the use of sophisticated and efficient machinery can reduce human resource needs even while the company is performing well and making a profit.

The more orders customers make the more staff the manufacturers will employ. In addition, the manufacturers may take advantage of an increase in market size, which will require the recruitment of more new workers to meet their needs. It is worth noting, however, that a business may receive a huge number of orders, but that the profit may be offset by high production costs.

In addition, one participant of the study states that she is planning to sell the company because of the huge interest rates she pays to her lenders. The huge interest rate is part of operating cost so it negatively impacts on the profit of the company. As the company now employs more people than it started with, she claims that the business is doing well but her main concern is the huge interest rate she pays on loans. The main running cost (interest on loans) is really offsetting her profit.

Most of the participants hold the view that age is a contributory factor to the good performance of a firm. This may be true to some extent, as the older a firm is, the more widely known it is likely to be, and the more time it has had to build a good brand image. It is also likely to have established a good rapport with customers and a good credit record with lenders. Abor (2007) and Johnson (2007) find that lenders consider age an indication of good performance, and are therefore more likely to lend to older firms.

This study has demonstrated how the independent variables impact on performance profitability and growth, the dependent variable. Whilst some variables, such as social and human capital, sources of finance and ownership structure either positively or negatively affect performance, others, such as government policies and age and size, give inconclusive effects on profitable performance. The next chapter is the summary of the entire project three, and it contains limitations of the study, emerging theoretical perspectives recommendations and grounds for further research.

Chapter Four

Conclusion

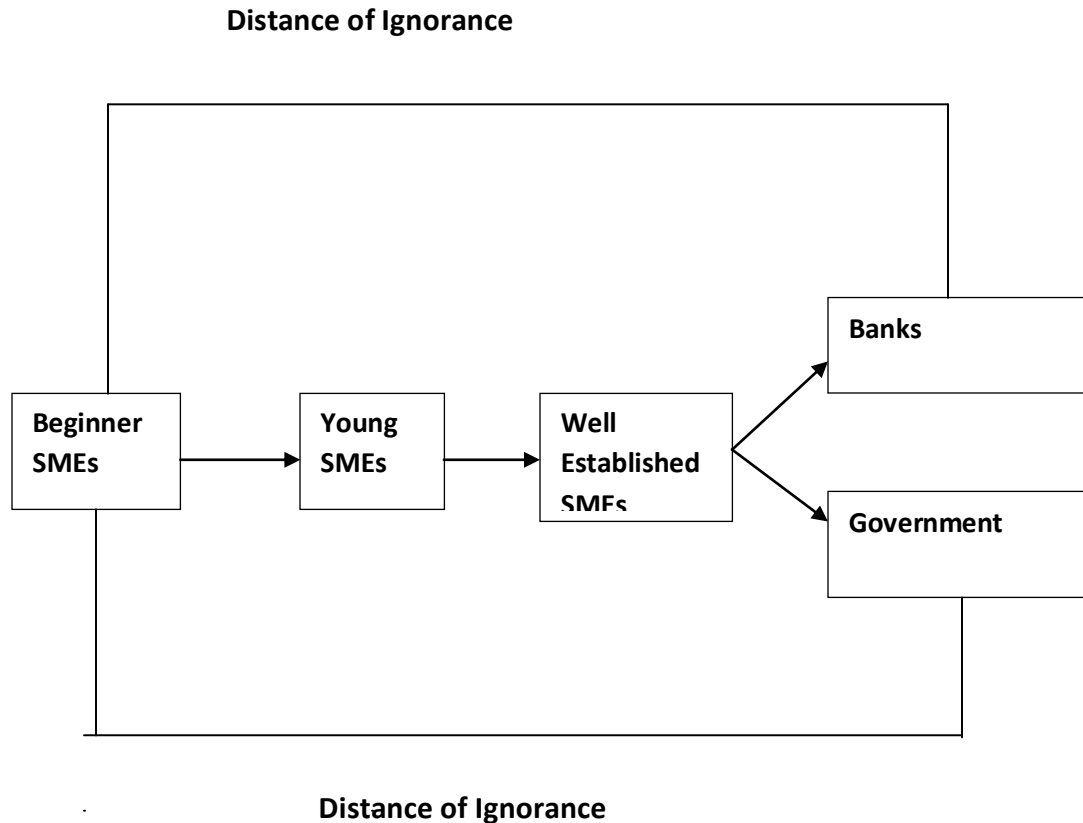
This part of the work presents the theories that have emerged from the study. It answers questions that may be posed by critics about the shortcomings of the study, and makes suggestions to policy makers, as well as recommendations for further research. It ends with a summary of the work.

4.1 Theoretical Concepts

The study has supported some theories as a result of analysing the interview transcripts. Firstly, the study supports the theory of establishment, which supposes that lending institutions are more willing to offer loans to self-sufficient SMEs that do not need their help, depriving the truly financially needy SMEs.

The proposition of ignorance regarding the government could be used here to refer to the introduction of policies which are not in synch with the real activities of SMEs. Since these policies are not aligned with the needs of SMEs, they rather encourage the failure of SMEs than offer solutions to their problems. Furthermore, government policies often take into consideration old and established SMEs, with negative effect on new SMEs. Since SMEs tend to have a short lifespan, of about 2 years on average, old policies are not likely to benefit new SMEs because they need constant updates to support the new SMEs.

Figure 6 Diagram of Ignorance of Banks & Government



The more remote SMEs are from the banks and government policies, the less likely they are to benefit from government policies or to get credit from the high street banks. The banks and the government do not make policies that incorporate distant SMEs, and as such their policies do not take into account the needs of all SMEs, and may even have negative consequences for some distant SMEs. The more remote SMEs are from the government, the more neglected and needy they are. When the level of interaction between the banks and the government and SMEs is low, SMEs get little or nothing from their policies targeted at them.

The under-utilisation of the skills of the managers is not uncommon among SMEs, as a result of over-controlling business owners. Owners may even use family members working in the business to spy on managers. This could be counterproductive, as managers are not able to use their initiative without the authorisation of the business owners, and may therefore fail to grow in their skills.

The issues that emerge from the theoretical phase of the study are: lenders' unwillingness to offer financial assistance to needy SMEs, micromanagement of SME managers by owners and the unfamiliarity of the SME terrain by government and banks.

4.2 Limitations of the Study

The work has been limited by time constraints and by other resources, such as finance. The deadline on the researcher's doctorate meant that he was unable to conduct interviews with more SMEs in Ghana.

Financially, it would have been Herculean task for the researcher to raise the money to conduct the study on a bigger scale to involve many SMEs in different regions of Ghana as it needs more financial and human resources. As the researcher had limited personal financial resources he prioritised his financial commitments so that he would be able to cover reasonable and acceptable study participants.

The biggest challenge was the unwillingness of SMEs to open up to a stranger about their activities. The majority of the participants that were contacted later turned down the invitation to take part in the interview for fear of being tracked down by the government, as they suspected that their personal details would be passed on to the government or to agencies that are closely related to the government and their competitors. In addition, they were worried that the researcher might be a potential competitor and that their business information would be used to the researcher's advantage. Participants who were suspicious of the researcher's motives also backed out of the study, often at the last minute. As a result, the number of SMEs who actually took part in the study was six.

The few interviews that did take place suffered many interruptions, as interviewees had to keep attending to their business. As a result, they sometimes lost their train of thought and the researcher had to constantly remind them about where they were in the interview. This affected the flow of the interview and made it take more time to complete.

The study was confined to Kumasi, the regional capital of Ashanti Region of Ghana, and to firms from the hospitality and manufacturing sectors. The study leaves out SMEs in other industries so the findings could not be replicated in those industries. The unexplored SMEs in other industries may have problems which are not akin to the ones

the researcher studied so the findings in the study may not be applicable in different SME contexts.

4.3 Policy Recommendations

Bridging the Knowledge Gap between SMEs, Lenders and the Government

According to Mensah (2004), banks and other lending bodies in Ghana have poor lending risk management skills. This has contributed to their harsh and unjustifiable treatment of SMEs applying for loans. Another pertinent problem is asymmetry of information between lenders and borrowers. The lenders cannot make fair assessment of the SMEs and the SMEs do not know what the lenders require from them. This has erected a barrier between them. There is need for an Enterprise Finance Guarantee (EFG) Scheme to be introduced by the government. This is a type of scheme wherein the state will support SMEs applying for bank loans. With this type of scheme in place, the banks would be less reluctant to approve loans to SMEs. Yet an EFG Scheme should not be practised without the training of SMEs in writing achievable and realistic business plans. A similar type of scheme was introduced in United Kingdom by the British Government during the recent financial crisis in 2009, to help SMEs to get back on track (Moules 2010). Under an EFG scheme, the Government of Ghana would negotiate deals with the lending institutions and would act as the SMEs' guarantor when they applied for loans. The SMEs would go through a rigorous screening process through a specially created independent body acting on behalf of the government, and after passing a test of creditworthiness they would be issued with a certificate or pass record to prove that they were in a position to repay their loans. The government would pay the lending bodies themselves, however, if the SMEs became unable to pay or went into administration. SMEs should be scrutinised by the agents or staff of the scheme in order to check their performance and to ensure that they are able to pay the loans.

Possible Agreement Zone (PAZ)

This system of approach is a mutual understanding between the lender and borrower on loan terms based on what the borrower is able to pay on loans. The two parties express their honest opinions about what they have to offer each other if they are satisfied with their terms and conditions then they enter into the loan contract. It helps borrower to negotiate a better deal unlike making the lenders determine the agreements all the time. Here the lender and the borrower come to a compromise on the deal that best suits them both, based on the ability of the borrower to repay the loan. This gives the

borrower the opportunity to disclose more information about their repayment strategy and about how they plan to finance the debt they want to take on. The lenders will also look into the deal to check that it also suits them and that they are able to offer the loan. There should be variable interest rates for the borrowers that apply for loans, as a single fixed interest rate for all borrowers is not in reality ideal for the ever-changing variety of situations and activities in which businesses are involved.

Alternative Efficient and Reliable Energy Source

The introduction of solar energy systems to the firms as part of the initial plan for the building of the businesses should be seen as one of the primary ways of reducing electric power shortages in the country and ensuring the smooth running of the businesses. Many businesses use hydroelectric power, diesel or petrol during power shortages but, since there is an abundant supply of sunshine in Ghana and since solar energy is much more cost-efficient than diesel and petrol generators, it would be cheaper to install solar panels in the business facilities. Solar energy systems need only occasional maintenance, and facility owners do not need to be dependent on external suppliers. The availability of constant supply of energy has the potential to increase productivity as the US experienced at the turn of the 20th century (Taylor 2010). Relying on alternative but reliable energy sources such as solar panels may enable SMEs to increase their productivity by reducing the idle and unproductive time suffered during power shortages. Although SMEs can use diesel and petrol as an alternative to intermittent power supply from hydroelectric power, it is not cost effective and efficient as they make their operational cost very high.

Another Potential Funding Source

Another potential strategy could be a combination of partnership and financing, which could serve as an alternative channel for raising capital among SMEs. This could involve SME owners who are searching for other people or seeking shareholders with similar business interests in order to raise capital. A private organisation with the responsibility of finding and matching potential financiers and entrepreneurs together could be set up by the government. It is an amalgamation of potential entrepreneurs with ideas and similarly interested financiers to team up to work on a business project. One party could contribute money and others would bring their expertise to the team. It could be a group of financiers and people with know-how working on a business project for profit. They could set up the business with their combined capital and expertise and could

share the risks associated with capital generation. The use of shareholders increases the potential to generate money during times when the business is quiet. For instance, when the SME ownership structure is made more open to non-family members, the SMEs are less likely to over-depend on financial institutions. The external (non-family) members could contribute financial as well as human resources to the company. This could help struggling SMEs to circumvent the banks which are charging high interests on their loans. Selling shares to non-family members increases their financial base and enables them to run the business effectively without worrying about how to access operating finance.

Academic and Business Partnership

Alternatively, there could be an Academic and Commercial partnership to fill economically skilled gap in most SMEs in the country. SMEs could take advantage of the abundant human resources in the country's tertiary institutions to update themselves on new ways of running businesses. They can team up with some of the universities, polytechnics and colleges to give them bright students to work as unpaid interns in exchange for job experiences. The downside of using unpaid interns could be, they may not be fully committed because they know there is no financial benefit at stake. They may also assume the business owner is getting their hard-earned skills for free. This could kill the motivation to do more for the companies. This can be a good way of saving money on human capital as they have limited financial capacity to recruit qualified people. The interns could serve as substitutes (stopgaps) to reduce the shortage of skills which plague most SMEs.

Information and Communication Technology

According to Hagel III (2010), information technology (IT) is becoming a double-edged sword in tackling the global competitive market. Hagel III opines the 21st century is shaped by the digital infrastructure. For example, SMEs (particularly hospitality firms) could use the internet to access the global market. The internet also offers cheaper ways of conducting global marketing than traditional marketing and promotional channels. Thus IT is tearing down barriers to trade and entry to other markets and enhancing profitability in the long term. The SMEs can use IT to create values. It can be used to boost the profile of the business globally as more internet viewers get to know and buy from it thereby increasing the sales volume which translates into more profit. IT can also enable much deeper client relationships, and an array of third parties. Satisfied

customers can send the webpage of the businesses as a link to their friends by e-mail or other social networks like Facebook, Bebo, MySpace, LinkedIn and Google+. This means it enables customers and owners to easily interact thereby increasing their level of association although virtual. It narrows the communication gap between customers and owners. While surface mails take longer to get to an aggrieved customer with IT at the click of a button on a computer the customers get answers to their queries. It has almost reduced the time to solving customer problems. IT also provides opportunities for networking.

Online Presence of SMEs

A firm's online presence is equivalent to its physical presence in the worldwide market. When a business operates online its webpage can be accessed by interested would-be customers in any part of the world where there is internet access. Orders can be made online and the business owner can send them by post. The scope of marketing is widened as an SME firm increases its presence online. Indeed, it is important that SMEs do register their presence online in order to compete with products coming in from the developed world. It is particularly important that manufacturing SMEs increase their spending on IT infrastructure. With cheaper labour as a competitive advantage in Ghana, SMEs may even attract investors from the West who are willing to team up with local entrepreneurs to start businesses.

Employee Empowerment

The owners and managers of the hospitality and manufacturing firms participating in the current study would have benefited more from their staff if they had encouraged them to use their initiative and to be less afraid of making mistakes. The company Apple, for example, encourages staff and non-staff to work on the development of their products, which has helped to make it one of the world's leading technology giants (Broughton 2010: 16). This is called open innovation, where staff and non-staff are able to express their approach to solving problems at work, instead of relying on management to solve every problem. Such an approach leads to creativity and innovation which makes a business stand out among its competitors.

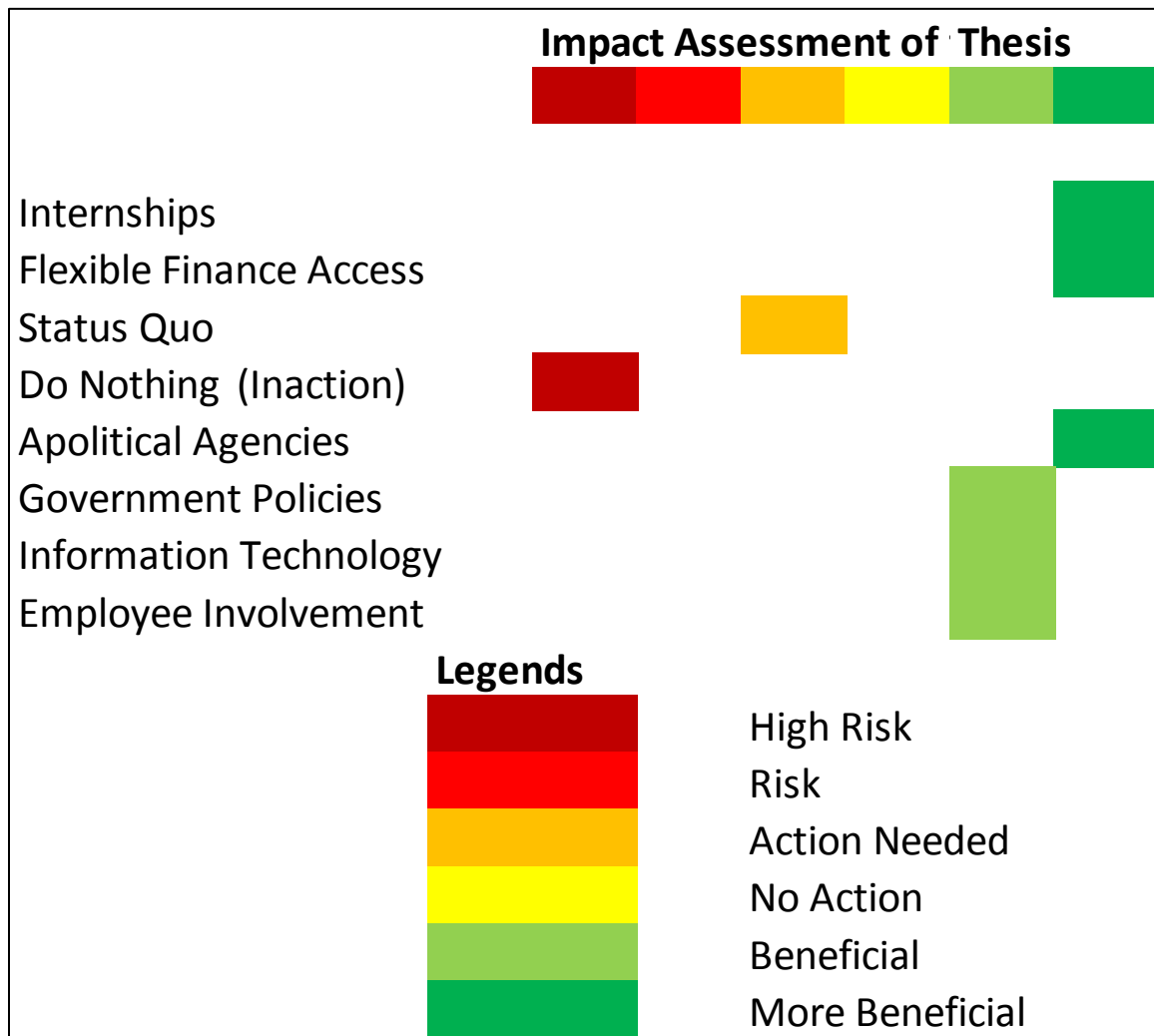
Use of Intermediary for Education of Stakeholders

The Government of Ghana and the lending companies (high street banks, microfinance institutions and other lending firms) could use an intermediary approach to generating

information from SMEs. An apolitical organisation or a social enterprise could be selected to collect data from SMEs to feed the lenders. The intermediary's sole duty is to collect as much information as possible about SME owners and their businesses. The collected information can then be passed on to the appropriate lenders and the government. The information generated from SMEs could help the government and other lending organisations to know how best to handle SME financial and human capital needs in the country. Since there is an information gap the government and the banks do not have a thorough understanding of the works of SMEs. As a result of the information gap the SMEs have become hostile to the banks and government because they perceive them as unhelpful. The reduced social contact makes it more difficult to build trust and compromises between the Government and lenders on one hand, and SMEs on the other side (The Economist 2011). The intermediary must be free from and unbiased by the motives of the government and the lenders, to ensure neutrality and transparency. The intermediary's research should cover both new and old SMEs so that the general public and other stakeholders, including the government and the lenders, will have a better insight into the operations of SMEs in Ghana. Such an approach would help the government to make plans that would help SMEs, and would narrow the information gap between SMEs and the government and lenders. This would be one of the best ways to create an enabling environment for SMEs not only to survive but also to perform better and to increase their profits. The next section discusses the potential impact of the thesis on affected stakeholders.

4.4 Potential Impact of the Suggestions in the Thesis

This section of the study analyses the effect of the suggestions proposed to stakeholders in the study. The main stakeholders are the Government of Ghana, Policy Makers, Banks, Venture Capitalists, Microfinance Institutions and other grey lenders, SMEs, Business Advisory Service Organisations, Would-be Entrepreneurs, and Academics. The impact assessment is prepared with the landscape of SMEs in hospitality and manufacturing sectors in mind as they are the focal points of this project. It is study-orientated because it is based on the researcher's findings in the study.



Internships

The use of internships programmes can be one of the avenues to get their productivity shored up because the students will fill up skill gaps in organisations. Moreover, they can save money on not employing paid staff resulting in reduction of their operational costs. As the operational costs fall the companies can produce more to benefit from the advantages of economies of scale. They can plough their profit back into the firms to produce more to sell to a large segment of their markets.

Government Policies

The Regulatory Environment has to be more conducive to the activities of SMEs in the country especially the studied sectors, hospitality and manufacturing industries. The introduction of tax holidays helps make SMEs to set themselves up. After the tax holidays, the SMEs have to be gradually started with lower tax bands and gradually moved into the standard tax level when they are at their full operational capacity and making profits. It could also lead to attraction of more graduates with good skills into the sector as they become aware of the flexible nature of the regulatory system for entrepreneurs.

Inaction is not a good government trump card as there is competition from their global counterparts. If the government does not make any helpful changes to the current SME policies then they are more likely to be overtaken by their foreign competitors who operate in the country. The eventual result of inaction is the dearth of SMEs as they could become uncompetitive in the market to foreign products. The country and its SMEs could slip backwards as other emerging countries are constantly upgrading their strategies for SMEs.

Apolitical SME Agencies

The government may need to invest in logistics and manpower to man the agencies which may cost capital. In the long term, the government and the lenders are likely to benefit because the agency will be able to collect and collate information to provide to the public. The information collected from SMEs will provide clearer picture on the ground for lenders and government policy makers. Moreover, SMEs could have their needs better met because of the access to information by government and lenders. The beneficiaries will then use the information to provide services that suit SMEs.

Employee Involvement

Involvement of employees in decision-making processes of the organisations is very helpful to the proper development of SMEs. The employees could be a vital source to tap ideas from. Employees could be invited to discuss the challenges of the work with the proprietors so alternative solutions could be found to them instead of the top-down approach to problem solving. The employees are knowledgeable and experienced in the day-to-day activities of the companies and can provide owners with insightful information for the management of the firms.

Information and Communication Technology (ICT)

ICT may take away the initial profit of SMEs in terms of the purchase of computers, printers, telephone sets and broadband subscriptions fees. These could be one off cost and the equipment may last for many years and the benefits could continue for a long time. For instance, the firms will improve their recordkeeping data storage while at the same time improving on their contacts with customers and solving problems faster than when they are using surface mail (SNAIL) to reach their customers. Money spent on postage will be reduced and calls to customers can be routed through VOIP (Voice over Internet Protocol) like Skype, Lync, Facebook, Google+ etc. The VOIP offers alternative cheap calls to mobile phones and landlines.

4.5 Further Research

The study uncovered seven main areas of concern for further research by policy makers and academics. These are outlined below.

- ❖ In addition, there is an opportunity for advanced research into the causes of the mistrust between SME owners and their employees in the hospitality and manufacturing sectors of Ghana. The majority of the owners express a lack of trust between themselves and their staff and seem to trust their family members more than the paid staff, claiming that family members are more reliable and treating non-family employees with suspicion. Researchers could look further into how and why this mistrust has come about, in order to suggest ways to eliminate or reduce it.
- ❖ Related to the previous question is finding out about the underlining cause for SME owners withholding important information about their businesses from their managers.

- ❖ Another potential area of interest for future researchers is what local manufacturing businesses can do in order to compete favourably with imports from western countries and other emerging markets. Researchers might look at the factors that contribute to the success of western companies in the Ghanaian market and at what local producers can do in order to regain the market and to operate successfully.
- ❖ Another important question for further research is what SMEs can do to stay out of financial difficulty, in order to avoid solely relying on high street banks for running capital.
- ❖ Future research could also look at the impact of a change of ownership or diluting the ownership structure (bringing in shareholders/selling shares of the business to the public) on SME performance and survivability, and how important this is to their success.

4.6 Conclusion

SME performance profitability and growth is an issue that has attracted the attention of the owners of businesses, policy makers and researchers alike. The SMEs participating in the current study were mainly family-owned, and their use of external members as managers did not change the way they would manage the businesses themselves if they had not hired managers. The study shows how endemic micromanagement is in the SMEs.

The six independent factors (social capital, human capital, ownership, and government context, sources of finance and age and size) that influenced the performance profitability and growth of SME firms were the main highlights of the research.

For a long time, businesses have had to deal with the financial challenge of lenders who are unwilling to grant them loans. This is in part due to the fact that SMEs in Ghana do not keep adequate records of their business activities. In addition, they tend to be little known by the banks, who are overly concerned with the production of collateral by SMEs requiring loans. Finance continues to be lacking and inaccessible to SMEs, who view lenders unfavourably because of the harsh conditions attached to the loans.

The use of information and communication technology (ICT) among the firms is not very well established, and the benefits of IT usage are little known by the firms. The

manufacturing firms in particular are lagging behind in the adoption and application of the latest technological advancements.

The independent variables proved significant in determining the performance of their businesses, as was recognised by the study participants, who all accept that a rise in any of these (except government policies) is a positive indicator of performance. They claim the government policies are fraught with dishonesty (see Section 2.5.2 of Chapter 2) and put constraints on their performance.

Recruitment methods used by SMEs participating in the study included a mixture of formal and informal approaches. They employed skilled and unskilled labour, with particular emphasis on unskilled labour, which is seen as a cheap alternative to a qualified workforce. Unskilled workers are trained them on the job. Yet despite their attachment to cheap, unskilled labour, they greatly appreciate the contribution made by professional workers to their businesses, regarding the qualified and educated workforce as a powerful tool in delivering good performance and increasing profitability and growth.

If SMEs are to achieve the sustainable profitable performance they have been clamouring for for many years, then acquisition of knowledge of the independent factors (human capital, sources of finance, age and size, social capital, government context, and business model) that enable them to overcome their challenges (poor record keeping, unskilled labour, poor financing etc.) and develop to achieve good performance is worthy of pursuing by them as the study has showcased.

The outcomes of the study open avenues for in-depth study of other aspects of the work by other researchers, and also for the reformulation of government and lender policies affecting SMEs in Ghana.

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